

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Novi, Michigan</u>	County Oakland
Audit Date June 30, 2004	Opinion Date September 30, 2004	Date Accountant Report Submitted To State: November 5, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 27400 Northwestern Hwy	City Southfield	State MI	ZIP 48034
Accountant Signature <i>Plante & Moran, PLLC</i>			

City of Novi, Michigan

Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2004

PREPARED BY THE FINANCE DEPARTMENT

City of Novi, Michigan

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City of Novi, Michigan

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City of Novi, Michigan

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October 13, 2004

Honorable Mayor Lou Csordas
Members of the City Council
Citizens of the City of Novi, Michigan

We are pleased to submit the Comprehensive Annual Financial Report of the City of Novi (the "City") for the fiscal year ended June 30, 2004. This report is prepared for the purpose of disclosing the City's financial condition to its residents, elected officials, and other interested parties. The financial statements contain all disclosures necessary to enable the reader to gain an understanding of the City's financial activities. Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the financial information is accurate in all material respects and is presented in a manner designed to present fairly the financial position of the City.

The Comprehensive Annual Financial Report is presented in three sections:

Introductory Section - The introductory section includes this letter of transmittal, the City's organizational chart, a list of principal officials, a fund organizational chart, and a reproduction of the City's Certificate of Achievement for Excellence in Financial Reporting for the fiscal year ended June 30, 2003 from the Government Finance Officers Association of the United States and Canada.

Financial Section - The financial section includes the independent auditor's report on the basic financial statements, management's discussion and analysis, basic financial statements, and combining and individual fund statements and schedules for the City's nonmajor and fiduciary funds.

Statistical Section - The statistical section includes selected financial and demographic data depicting the City's historical trends and other significant information.

The City of Novi has implemented the new governmental financial reporting model as required by the Governmental Accounting Standards Board (GASB) Statement No. 34. In accordance with the new standards, accounting principles generally accepted in the United States of America (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of management's discussion and analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Honorable Mayor Lou Csordas
Members of the City Council
Citizens of the City of Novi, Michigan

All local units of government within the State of Michigan must comply with the Uniform Budgeting and Accounting Act, PA 2 of 1968, as amended, which requires an annual audit of the financial records and transactions of the City by independent certified public accountants. The primary purpose of the auditing requirements of this act is to maintain the confidence of all interested parties in the integrity of the recordkeeping and financial reporting of local units of government.

Profile of the Government

The City of Novi, incorporated in 1969, is strategically located in the southwestern portion of vibrant Oakland County. Located just 30 miles northwest of downtown Detroit, the City serves over 47,000 residents and encompasses an area of approximately 32 square miles. Novi is considered a choice community in which to live and work. A dynamic, growing community, Novi offers an abundance of rolling, wooded acreage, which provides a unique natural backdrop for residential, commercial, and industrial land development. Novi is well-connected to highway, rail, and air transportation routes offering outstanding accessibility.

The City of Novi operates under the council-manager form of government. Policy-making and legislative authority are vested in the City Council, which is presided over by the mayor, who is elected for a two-year term. The six other council members are elected for four-year overlapping terms. The city manager is appointed by the City Council. This official heads the administrative branch of city government and directs all city operations, projects, and programs.

The City provides a full range of municipal services including police and fire protection, public works, parks, recreational and forestry activities, building inspection, code enforcement, and planning and development. In addition to general government activities, the activities of the Economic Development Corporation are reported as a separate component unit of the City. Component units are legally separate entities for which the primary government is financially accountable.

The City of Novi prepares budgets in accordance with the Uniform Budgeting and Accounting Act, PA 2 of 1968, as amended. Under the direction of the city manager, the finance director prepares an initial projection of revenue for the next fiscal year. Spending priorities are then established based upon the City's financial policies and mandated requirements. Activities of the General Fund and Special Revenue Funds are included in the annual appropriated budget. The level of budgetary control (that is, the level at which expenditures cannot exceed the appropriated amount) is established by function and category. It takes a five-vote majority to amend the budget.

Honorable Mayor Lou Csordas
Members of the City Council
Citizens of the City of Novi, Michigan

Factors Affecting Financial Condition

Local Economy - The City of Novi's local economy remains strong as a result of sustained residential and commercial development experienced over the past 10 years. Tax base continues to grow annually in the City of Novi at a rate of approximately 8 percent. The diverse tax mix of residential, manufacturing, office, service and technology, and retail-recreational centers reduces the City of Novi's impact of adverse economic cycles and provides a stable environment for new investment. The slowdown in the economy did have an impact on the State of Michigan's revenue-sharing program, which distributes sales tax collected to local units of government. The City of Novi's revenue sharing decreased by \$392,406, or 9.3 percent, from the prior year. Overall for the year, total General Fund revenue came in under total expenditures by \$159,739.

Long-term Financial Planning - The dependency on sales tax collections in Michigan as the sole source for the state revenue-sharing pool injects a degree of instability within this revenue source during periods of economic downturn. On average, state revenue sharing for cities range from a low of 5.7 percent of General Fund revenues to a high of 45.2 percent, with an average of 21.9 percent. The City's percentage is slightly below the average at 18.5 percent of total General Fund revenue. The City can expect a small decrease, approximately 1 percent, in its state-shared revenue for the upcoming fiscal year.

Cash Management Policies and Practices - The City complies with Public Act 20 of 1943 and Public Act 367 (as amended) of the State of Michigan in its cash management activities. Idle cash in all funds is invested in certificates of deposit, governmental obligations, bankers' acceptances, bank pooled accounts, and commercial paper. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. In the state of Michigan, municipalities are not required to insure all bank deposits; however, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories. The City has an investment policy in accordance with the above statements.

Risk Management - Effective July 1, 2003, the City terminated its participation in the Michigan Municipal League general liability and property insurance program and is now insured through the Municipal Insurance Alliance. The City of Novi still continues to participate in the Michigan Municipal League Workers' Compensation Fund, which is a group self-insured program which provides workers' disability compensation benefits to injured employees of fund members. The fund is comprised of public employers of the State of Michigan which are authorized and approved under Section 611(2) of the Workers' Disability Compensation Act, PA 317 of 1969, as amended, to enter into agreements to pool their liabilities under the Act for the purpose of qualifying as self-insurers. Additional information on the City of Novi's risk management activity can be found in Note 9 of the notes to the financial statements.

Honorable Mayor Lou Csordas
Members of the City Council
Citizens of the City of Novi, Michigan

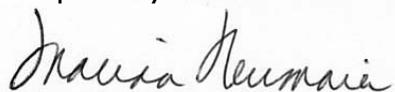
Pension and Other Postemployment Benefits - The City participates in the Michigan Municipal Employees' Retirement System (MMERS), an agent multiple-employer defined benefit pension plan that covers all full-time employees of the City. The City's annual required contribution is calculated as a percentage of payroll each year by an independent actuary engaged by MMERS. As a matter of policy, the City of Novi fully funds each year's annual required contribution to the pension plan.

The City of Novi also provides retiree health care benefits to qualifying full-time employees upon retirement, in accordance with labor contracts. Currently, 37 retirees are eligible. Expenditures for retiree health care benefits are recognized as the insurance premiums become due for individuals retired before June 30, 1994. For individuals retiring after June 30, 1994, payments for premiums are recorded in the Retiree Health Care Benefits Expendable Trust Fund. Employer contributions are made annually to this fund and charged as expenditures to individual departmental budgets based on a percentage of wages.

Awards - The Government Finance Officers Association (GFOA) awarded a Certificate of Excellence in Financial Reporting to the City of Novi for its comprehensive annual financial report for the fiscal year ended June 30, 2003. This was the sixth year that the City of Novi has received this prestigious award.

Acknowledgements - The preparation of this Comprehensive Annual Financial Report was made possible by the efficient and dedicated service of many individuals. We wish to express our sincere appreciation to each of them. Special thanks to the accounting firm of Plante & Moran, PLLC, which made substantial contributions by way of interpretation of recent guidelines and document review. Appreciation is also expressed to the mayor and City Council members and Richard Helwig, city manager, for their leadership and support in matters pertaining to the financial affairs of the City.

Respectfully submitted,



Marina Neumaier
Assistant Finance Director



Kathy A. Smith-Roy
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Novi,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

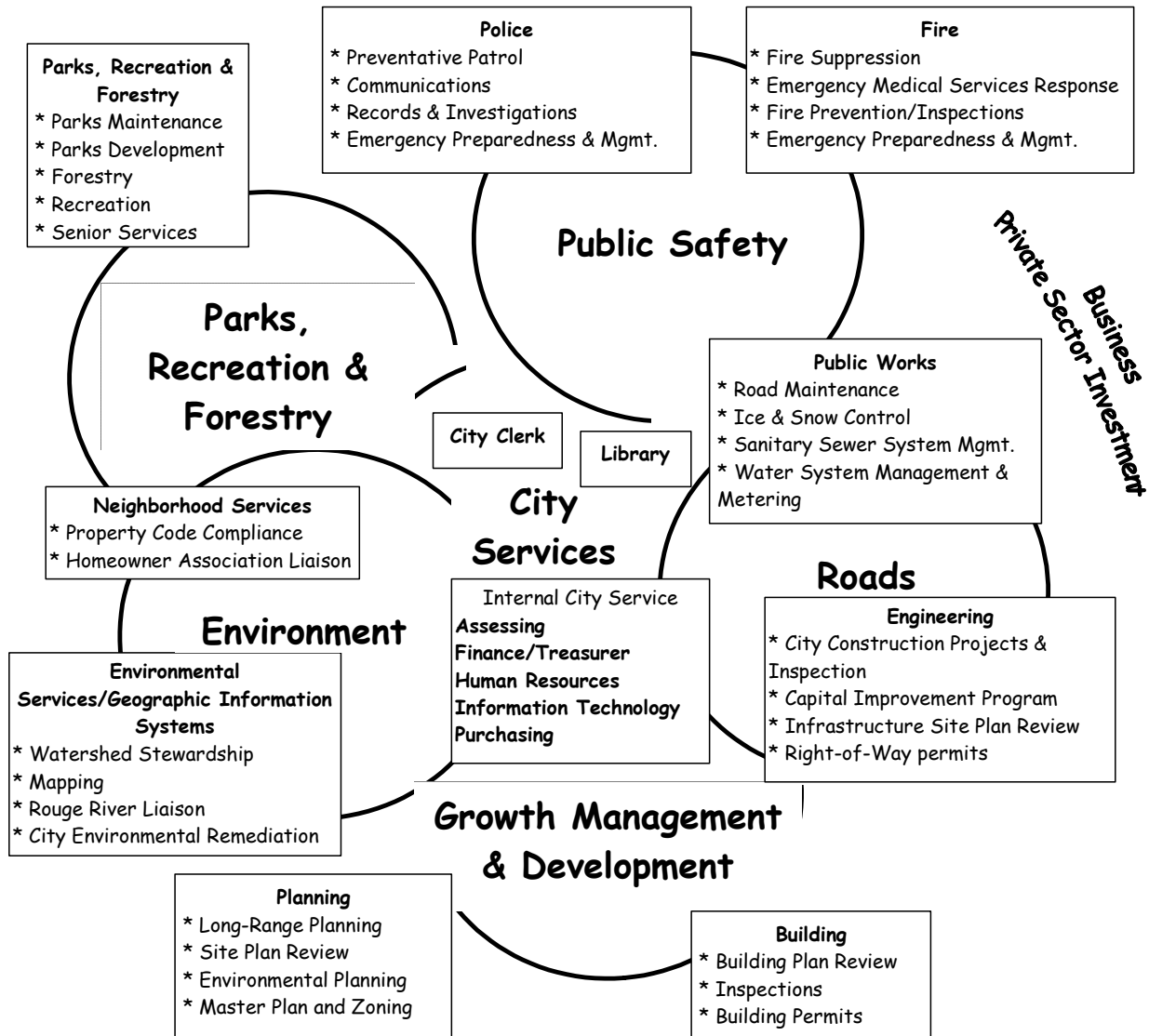
Executive Director



Citizens

**Mayor and City Council/
Office of the City Manager**

**Volunteer Boards
and Commissions**



**Federal, State,
County Government**

Schools

**Homeowner and
Neighborhood Associations
Civic Associations**

Feb. 2003

City of Novi Organizational Chart

City of Novi, Michigan

List of Principal Officials June 30, 2004

Title	Name
City Manager	Richard B. Helwig
Assistant City Manager	Clay J. Pearson
Chief Operating Officer	Craig M. Klaver
Assessor	David G. Lemmon
Deputy Assessor	Kenneth J. Cheyne
City Clerk	Maryanne Cornelius
Deputy City Clerk	Nancy A. Reutter
Director of Human Resources	Tia M. Gronlund-Fox
Community Relations Manager	Sheryl L. Walsh
Director of Public Works	William A. McCusker
Assistant Director of Public Works	Gary C. Clark
GIS Manager	William E. Berdelman
Building Official	Donald M. Saven
City Forester	Steve C. Printz
Fire Chief	Arthur R. Lenaghan
Assistant Fire Chief	Jeffery R. Johnson
Parks, Recreation, and Forestry Director	Randall A. Auler
Deputy Parks, Recreation, and Forestry Director	Jack Lewis
Parks Superintendent	Matthew Wiktorowski
Police Chief	Douglas F. Shaeffer
Deputy Police Chief	Robert A. Rasmussen
Library Director	Brenda J. Evans
Neighborhood Services Coordinator	Cynthia M. Uglow
Planning Director	Barbara E. McBeth
Finance Director/Treasurer	Kathy A. Smith-Roy
Assistant Finance Director	Marina Neumaier
Senior Financial Manager	Jeffrey D. Hall
Assistant City Treasurer	Beverly A. Valente
Budget Analyst	Stephanie J. Sharpe
Purchasing Official	Carol Kalinovik

City of Novi, Michigan

Fund Organization Chart

Governmental Funds

Fund Name	Special Revenue Funds
General Fund	Major Street
	Local Street
	Municipal Street
	Parks, Recreation, and Forestry
	Police and Fire
	Library
	Drain Revenue
	Drain Perpetual Maintenance
	Judgment Trust
	Contributions and Donations
	Walker Building
	Special Assessment Revolving
	Capital Projects
	2000 Voted Street Construction
	Capital Improvement
	1999 Police Building Construction
	1997 Fire Capital Improvement
Debt Service Funds	
1997 Voted Street	
2000 Voted Street	
2002 Michigan Transportation Fund Refunding Debt	
2002 Street and Refunding Debt	
1997 Fire Debt	
1993 Refunding Debt	
2000 Limited Tax Debt	
1999 Police Debt	
2003 Refunding Debt	
Special Assessments	
Proprietary Fund - Enterprise Funds	
Water and Sewer	
Senior Housing	
Ice Arena	

Fiduciary Funds

Pension and Other Employee Benefit Trust Fund	Agency
Retiree Health Care Benefits	Agency
Component Unit	
Economic Development Corporation	

Independent Auditor's Report

To the City Council
City of Novi, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information including the discretely presented component unit of the City of Novi, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Novi's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information including the discretely presented component unit of the City of Novi, Michigan as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the City Council
City of Novi, Michigan

The accompanying required supplemental information and other supplemental information, as identified in the table of contents, are not required parts of the basic financial statements. The required supplemental information is information required by the Governmental Accounting Standards Board; the other supplemental information is presented for the purpose of additional analysis. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Novi, Michigan's basic financial statements. The required supplemental information and the other supplemental information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory section and statistical tables, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Plante & Moran, PLLC

September 30, 2004

City of Novi, Michigan

Management's Discussion and Analysis

The City of Novi, Michigan's (the "City") discussion and analysis is a narrative overview of the City's financial activities for the fiscal year ended June 30, 2004. The information presented here should be read in conjunction with our letter of transmittal, the financial statements, and notes to the financial statements that follow.

Financial Highlights

- Total assets related to the City's governmental activities exceeded liabilities at June 30, 2004 by \$101,861,537.
- Investment in capital assets (net of depreciation and related debt) accounts for over half of this amount, with a value of \$62,117,983.
- Of the remaining net assets, \$4,332,865 may be used to meet the government's ongoing obligations to citizens and creditors, without legal restriction.
- Net assets related to the City's governmental activities increased by \$4,822,175, or 5 percent, during fiscal year 2003-2004.
- As of June 30, 2004, the City's governmental funds reported combined ending fund balances of \$37,761,404. Unreserved fund balance of the General Fund totaled \$5,133,307 at June 30, 2004, of which \$4,955,425 was undesignated. Unreserved fund balance represents the amount of financial resources available for future spending or appropriation.
- Total direct debt at June 30, 2004 was \$112,706,000.

Overview of the Financial Statements

This discussion and analysis provides an introduction and overview to the City of Novi, Michigan's basic financial statements. This information will assist users in interpreting the basic financial statements. We will also provide other financial discussion and analysis of certain plans, projects, and trends necessary for understanding the full context of the financial condition of the City.

Basic Financial Statements - The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The financial section of this report also contains required supplemental information in addition to the basic financial statements.

Government-wide Financial Statements - Government-wide financial statements provide readers with a broad overview of the City's finances in a manner similar to a private-sector business, distinguishing functions of the City that are principally supported by taxes and intergovernmental revenues (referred to as "governmental activities") from functions that are intended to recover all or a significant portion of their costs through user fees and charges (referred to as "business-type activities").

City of Novi, Michigan

Management's Discussion and Analysis (Continued)

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. This statement serves a purpose similar to that of the balance sheet of a private-sector business and presents a longer-term view of the City's finances. Over time, increases or decreases in net assets can serve as one indicator of the financial position of the City. Other indicators include the condition of the City's infrastructure systems (roads, drainage systems, bridges, etc.), changes in property tax base, and general economic conditions within the City.

The statement of activities presents information showing how the City's net assets changed during the year. This statement separates program revenue (revenue generated by specific programs through charges for services, grants, and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program). This shows the extent each program relies on taxes for funding. All changes in net assets are reported using the accrual basis of accounting, which requires that revenues are reported when they are earned and expenses are reported when incurred. Items such as deferred special assessments and earned but unused employee leave time will be included in the statement of activities as revenue and expense, even though the cash flows associated with these items will be recognized in future fiscal periods.

In accordance with GASB No. 14, *The Financial Reporting Entity*, the City has identified certain entities as component units in the government-wide financial statements. By virtue of its authority to exercise influence over their operations, the City has included the financial statements of the Economic Development Corporation, which is a discretely presented component unit within the government-wide financial statements.

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Novi, like other state and local governments, establish funds for compliance with finance-related legal requirements. All of the funds of the City of Novi fall into three categories: governmental funds, proprietary funds, and fiduciary funds. Governmental funds account for most, if not all, of a government's tax-supported functions. Proprietary funds account for a government's business-type activities where all or part of the costs of activities are supported by fees and charges that are paid by those who benefit from the activities. Fiduciary funds account for resources that are held by the government as a trustee or agent for parties outside of the government. The resources of fiduciary funds cannot be used to support the government's own programs.

Governmental Funds - The City of Novi maintains 26 individual governmental funds. The governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances present separate columns of financial data for the General Fund, Municipal Street Fund, and the 2000 Voted Street Construction Fund. These funds are considered major funds as of June 30, 2004. The remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements located in the other supplemental information section of this report.

City of Novi, Michigan

Management's Discussion and Analysis (Continued)

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Governmental fund financial statements focus on near-term inflows and outflows of spendable resources and on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating a government's near-term financing requirements in comparison to near-term resources available.

Because the measurement focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. The government-wide statements give readers a better understanding of the long-term impact of the government's near-term financing decisions. The governmental fund balance sheet and the statement of revenues, expenditures, and changes in fund balances provide a reconciliation to the governmental activities column in the government-wide statements, facilitating this comparison.

The City of Novi adopts an annual appropriated budget for its General Fund and Special Revenue Funds. A budgetary comparison statement has been provided for the General Fund and Municipal Street Fund within the required supplemental information. Budgetary comparisons for other nonmajor governmental funds are presented within the other supplemental section of the report.

Proprietary Funds - Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses Enterprise Funds to account for its water and sewer, ice arena, and senior housing activities. Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail, since both apply the accrual basis of accounting. In comparing the proprietary fund statement of net assets to the business-type column on the government-wide statement of net assets, the total net assets agree, and therefore need no reconciliation. In comparing the total assets and total liabilities between the same two statements, you will notice slightly different amounts. This is because the "internal balances" line on the government-wide statement combines the "due from other funds" (asset) and the "due to other funds" (liabilities) from the proprietary fund statement in a single line in the asset section of the government-wide statement.

The proprietary fund financial statements provide separate information for the Water and Sewer Fund, Ice Arena Fund, and the Senior Housing Fund.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Novi's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

City of Novi, Michigan

Management's Discussion and Analysis (Continued)

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided, and are an integral part of the government-wide and fund financial statements.

Other Information - In addition to the basic financial statements and accompanying notes, this report also contains certain required supplementary information concerning budgetary comparisons of the General and Municipal Street Funds. The combining statements in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

Government-wide Financial Analysis

Statement of Net Assets - As noted earlier, changes in net assets may serve as a useful indicator of a government's financial position. The City's assets exceeded total liabilities by \$247,652,551 at the close of June 30, 2004. The following table shows, in a condensed format, the net assets as of June 30, 2004 and 2003.

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Assets						
Current assets	\$ 53,495,514	\$ 66,165,471	\$ 43,632,161	\$ 38,163,525	\$ 97,127,675	\$ 104,328,996
Noncurrent assets:						
Restricted assets	6,345,148	1,572,501	10,505,222	6,258,807	16,850,370	7,831,308
Capital assets	120,447,933	111,213,409	136,841,559	132,329,170	257,289,492	243,542,579
Total assets	180,288,595	178,951,381	190,978,942	176,751,502	371,267,537	355,702,883
Liabilities						
Current liabilities	11,921,078	10,363,079	5,437,928	4,711,753	17,359,006	15,074,832
Long-term liabilities	66,505,980	71,548,940	39,750,000	39,205,000	106,255,980	110,753,940
Total liabilities	78,427,058	81,912,019	45,187,928	43,916,753	123,614,986	125,828,772
Net Assets						
Invested in capital assets -						
Net of related debt	62,117,983	54,427,110	95,306,559	91,549,170	157,424,542	145,976,280
Restricted	35,410,689	38,210,144	10,905,222	6,258,807	46,315,911	44,468,951
Unrestricted (deficit)	4,332,865	4,402,108	39,579,233	35,026,772	43,912,098	39,428,880
Total net assets	<u>\$ 101,861,537</u>	<u>\$ 97,039,362</u>	<u>\$ 145,791,014</u>	<u>\$ 132,834,749</u>	<u>\$ 247,652,551</u>	<u>\$ 229,874,111</u>

Over 60 percent of the City's net assets reflect its investment in capital, less any related debt used to acquire those assets that are still outstanding. The City's capital assets are used to provide services to citizens. Consequently, these assets are not available for future spending. Restricted net assets represent resources that are subject to external restrictions on how they may be used. Unrestricted net assets related to governmental activities of \$4,332,865 represent the amount that may be used to meet the City's ongoing obligations.

City of Novi, Michigan

Management's Discussion and Analysis (Continued)

Changes in Net Assets - The City's total net assets increased by \$17,778,440 during fiscal year 2003-2004. Business-type activities increased net assets by \$12,956,265, which represents 73 percent of the total growth in net assets for the City of Novi. The Water and Sewer Fund accounts for the majority of this increase and is attributable to water and sewer lines contributed by developers and system-connection related fees. Key elements of this increase are shown in the following table.

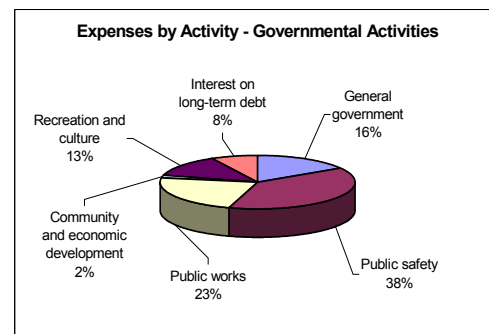
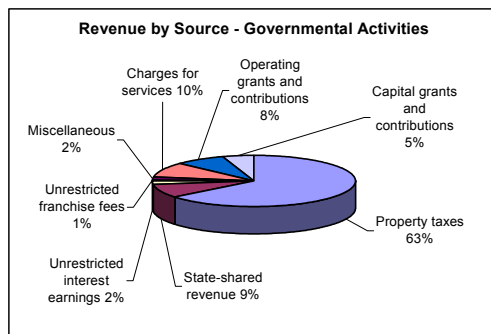
TABLE 2

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenue						
Program revenue:						
Charges for services	\$ 4,197,529	\$ 4,230,882	\$ 15,403,764	\$ 14,860,491	\$ 19,601,293	\$ 19,091,373
Operating grants and contributions	3,484,063	4,010,155	-	-	3,484,063	4,010,155
Capital grants and contributions	2,223,129	19,582,814	14,915,510	5,610,131	17,138,639	25,192,945
General revenue:						
Property taxes	28,321,001	26,579,364	-	-	28,321,001	26,579,364
State-shared revenue	3,812,543	4,204,949	-	-	3,812,543	4,204,949
Unrestricted investment earnings	949,504	1,276,430	1,349,270	1,161,275	2,298,774	2,437,705
Franchise fees	266,880	255,455	-	-	266,880	255,455
Other	821,331	503,981	-	-	821,331	503,981
Total revenue	44,075,980	60,644,030	31,668,544	21,631,897	75,744,524	82,275,927
Program Expenses						
General government	6,231,101	6,210,935	-	-	6,231,101	6,210,935
Public safety	15,291,311	13,978,661	-	-	15,291,311	13,978,661
Public works	8,429,310	8,509,856	-	-	8,429,310	8,509,856
Community and economic development	713,015	746,891	-	-	713,015	746,891
Recreation and culture	4,800,821	5,329,303	-	-	4,800,821	5,329,303
Interest on long-term debt	3,788,247	3,513,817	-	-	3,788,247	3,513,817
Water and sewer	-	-	15,150,583	14,162,739	15,150,583	14,162,739
Ice arena	-	-	1,798,053	1,687,774	1,798,053	1,687,774
Senior housing	-	-	1,763,643	1,826,826	1,763,643	1,826,826
Total program expenses	39,253,805	38,289,463	18,712,279	17,677,339	57,966,084	55,966,802
Increase in Net Assets - Before transfers	4,822,175	22,354,567	12,956,265	3,954,558	17,778,440	26,309,125
Transfers	-	240,644	-	(240,644)	-	-
Increase in Net Assets	4,822,175	22,595,211	12,956,265	3,713,914	17,778,440	26,309,125
Net Assets - Beginning of year	97,039,362	74,444,151	132,834,749	129,120,835	229,874,111	203,564,986
Net Assets - End of year	<u>\$ 101,861,537</u>	<u>\$ 97,039,362</u>	<u>\$ 145,791,014</u>	<u>\$ 132,834,749</u>	<u>\$ 247,652,551</u>	<u>\$ 229,874,111</u>

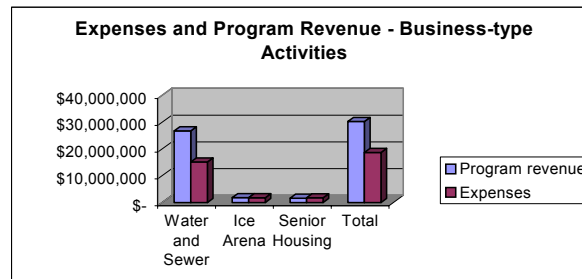
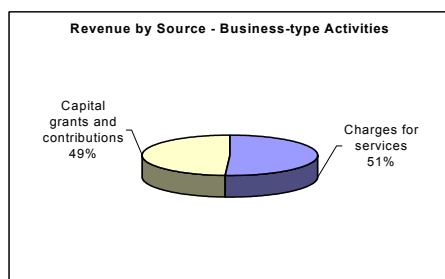
Governmental Activities - Program revenues, which include user fees and charges and restricted operating and capital grants and contributions, represent 17 percent of total governmental revenue sources. Program revenues reduce the net cost of the governmental functions to be financed from the City's general revenues, which are comprised primarily of property taxes and state revenue-sharing.

City of Novi, Michigan

Management's Discussion and Analysis (Continued)



Business-type Activities - Business-type activities increased the City's net assets by \$12,956,265. The Water and Sewer Fund accounts for the majority of this increase and represents water and sewer lines contributed by developers and system-connection related fees.



Financial Analysis of the City's Funds

Governmental Funds - The City has 26 governmental funds, categorized into four fund types. Each fund type has a unique purpose. Three funds are classified as major funds for the purpose of this report, based on criteria set forth by the Governmental Accounting Standards Board. Those funds are the General Fund, the Municipal Street Fund, and the 2000 Voted Street Construction Fund.

As of June 30, 2004, the governmental funds of the City of Novi reported a combined fund balance of \$37,761,404, a decrease of \$7,685,799 in comparison with the prior year. Of this amount, \$4,955,425 represents undesignated fund balance of the General Fund, which may be used to meet the government's ongoing obligations to citizens and creditors, without legal restriction.

Proprietary Funds - The City of Novi's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the Water and Sewer Fund were \$39,579,233 as of June 30, 2004. The Ice Arena Fund has an accumulated deficit of \$245,806. This deficit will be eliminated in future years by holding down costs, increasing user fees to equal competitive market rates, and additional revenue from a cellular tower agreement with Sprint, entered into by the City in fiscal year 2000-2001.

City of Novi, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Revenue outperformed budget expectations by \$363,799 for the fiscal year ended June 30, 2004. City departments overall stayed below budget, resulting in total expenditures below budget by \$1,445,636. Differences between the original budget and the final amended budget were minimal. Significant budget changes included reductions in state-shared revenue. The City has and will continue to feel the effects of the slowdown in the State's economy. The City's revenue-sharing decreased by \$392,406, or 9.3 percent, from the prior year.

Capital Asset and Debt Administration

Capital Assets - The City of Novi's investment in capital assets, including construction in progress, for its governmental and business-type activities as of June 30, 2004 amounts to \$257,289,492 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, infrastructure, and construction in progress. This reflects an increase in net capital assets of \$13,746,913 during the year.

	Governmental Activities		Business-type Activities		Total Activities	
	2004	2003	2004	2003	2004	2003
Land	\$ 22,933,826	\$ 21,733,901	\$ 2,034,701	\$ 2,034,701	\$ 24,968,527	\$ 23,768,602
Buildings and improvements	15,234,143	15,102,780	19,961,832	20,560,106	35,195,975	35,662,886
Machinery and equipment and library books	3,741,304	3,768,621	715,978	765,398	4,457,282	4,534,019
Infrastructure	78,538,660	70,608,107	98,307,054	96,617,660	176,845,714	167,225,767
Construction in progress	-	-	15,821,994	12,351,305	15,821,994	12,351,305
Total	<u>\$ 120,447,933</u>	<u>\$ 111,213,409</u>	<u>\$ 136,841,559</u>	<u>\$ 132,329,170</u>	<u>\$ 257,289,492</u>	<u>\$ 243,542,579</u>

Additional information on City of Novi's capital assets can be found in Note 6 of this report.

Long-term Debt - The City issued \$2,330,000 of Special Assessment Limited Tax Bonds, Series 2003 to provide funds for sanitary sewer improvements in new residential developments.

The City also refunded \$6,200,000 of General Obligation Unlimited Tax Road Bonds, Series 1998. These bonds were refunded through the issuance of \$6,565,000 of General Obligation Unlimited Tax Bonds. This refunding reduced total debt service payments, resulting in an economic gain of \$186,726.

The following table is a comparison of the summary information for the fiscal years ended June 30, 2004 and 2003.

	Governmental Activities		Business-type Activities		Total Activities	
	2004	2003	2004	2003	2004	2003
General obligation bonds	\$ 52,625,000	\$ 55,595,000	\$ -	\$ -	\$ 52,625,000	\$ 55,595,000
Michigan transportation fund bonds	2,015,000	2,280,000	-	-	2,015,000	2,280,000
Special assessment debt with government commitment	16,465,000	17,590,000	2,330,000	-	18,795,000	17,590,000
County contractual obligations	-	8,835	3,175,000	3,825,000	3,175,000	3,833,835
Installment purchase agreements	66,000	97,000	-	-	66,000	97,000
Revenue bonds	-	-	13,680,000	14,105,000	13,680,000	14,105,000
Building authority bonds	-	-	22,350,000	22,850,000	22,350,000	22,850,000
Total	<u>\$ 71,171,000</u>	<u>\$ 75,570,835</u>	<u>\$ 41,535,000</u>	<u>\$ 40,780,000</u>	<u>\$ 112,706,000</u>	<u>\$ 116,350,835</u>

Additional information on the City's long-term debt can be found in Note 8 of this report.

City of Novi, Michigan

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

The budget plan, as approved in the fiscal year 2004-2005 budget, continues to maintain a minimum of 10 percent of current year's expenditures be set aside for unforeseen emergencies. The estimated revenue by the building department remains strong, which correlates to the continued increase in property tax revenue as a result of the increase in taxable values. The General Fund property tax revenue is estimated at \$13,190,000 for 2004-2005.

The 2004 approved tax millage rate continues to remain at 10.5416 mills. This rate is less than the average millage rate (10.6) for the last seven years and among the lowest municipal millages in Oakland County. Unreserved fund balance in the General Fund is \$5,133,307; of this amount, \$177,882 has been designated for subsequent year's expenditures.

Requests for Information

This financial report is designed to provide a general overview of the City of Novi's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the finance department, City of Novi, 45175 W. Ten Mile Road, Novi, MI 48375.

City of Novi, Michigan

Statement of Net Assets June 30, 2004

	Primary Government			Component Unit - Economic Development Corporation
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 30,970,546	\$ 40,835,193	\$ 71,805,739	\$ 29,561
Accounts receivable:				
Other governmental units	1,860,228	-	1,860,228	-
Water and sewer billings	-	2,392,001	2,392,001	-
Taxes	833,836	-	833,836	-
Special assessments	19,028,512	-	19,028,512	-
Other	180,146	912,605	1,092,751	35,000
Internal balances (Note 4)	622,246	(622,246)	-	-
Prepaid and other assets	-	6,467	6,467	-
Inventory	-	108,141	108,141	-
Restricted assets (Note 5)	6,345,148	10,505,222	16,850,370	-
Capital assets - Net (Note 6):				
Depreciable	97,514,107	118,984,864	216,498,971	-
Nondepreciable	22,933,826	17,856,695	40,790,521	-
Total assets	180,288,595	190,978,942	371,267,537	64,561
Liabilities				
Accounts payable	2,104,727	2,376,023	4,480,750	-
Accrued and other liabilities	1,585,307	810,485	2,395,792	-
Unearned revenue (Note 7)	553,484	5,359	558,843	-
Receipts refundable	-	396,311	396,311	-
Noncurrent liabilities:				
Bonds payable, due within one year (Note 8)	5,667,000	1,785,000	7,452,000	-
Bonds payable, due in more than one year (Note 8)	65,504,000	39,750,000	105,254,000	-
Employee compensated absences, due within one year (Note 1)	1,488,260	64,750	1,553,010	-
Employee compensated absences, due in more than one year (Note 1)	1,001,980	-	1,001,980	-
Claims and judgments due within one year (Note 9)	522,300	-	522,300	-
Total liabilities	78,427,058	45,187,928	123,614,986	-
Net Assets				
Invested in capital assets - Net of related debt	62,117,983	95,306,559	157,424,542	-
Restricted:				
Streets and highways	4,732,377	-	4,732,377	-
Drains	8,285,898	-	8,285,898	-
Debt service	1,372,204	1,475,000	2,847,204	-
Special assessments	17,664,554	9,030,222	26,694,776	-
Police and fire	1,410,228	-	1,410,228	-
Parks and recreation	431,441	400,000	831,441	-
Library	398,527	-	398,527	-
Donations	1,115,460	-	1,115,460	-
Unrestricted	4,332,865	39,579,233	43,912,098	64,561
Total net assets	\$ 101,861,537	\$ 145,791,014	\$ 247,652,551	\$ 64,561

The Notes to Financial Statements are an
Integral Part of this Statement.

City of Novi, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 6,231,101	\$ 61,336	\$ 239,457	\$ -
Public safety	15,291,311	2,357,562	74,833	-
Public works	8,429,310	292,635	3,145,620	1,108,343
Community and economic development	713,015	452,926	-	-
Recreation and culture	4,800,821	1,033,070	24,153	1,114,786
Interest on long-term debt	3,788,247	-	-	-
Total governmental activities	39,253,805	4,197,529	3,484,063	2,223,129
Business-type activities:				
Water and sewer	15,150,583	11,910,235	-	14,902,410
Ice Arena	1,798,053	1,829,384	-	13,100
Senior Housing	1,763,643	1,664,145	-	-
Total business-type activities	18,712,279	15,403,764	-	14,915,510
Total primary government	<u>\$ 57,966,084</u>	<u>\$ 19,601,293</u>	<u>\$ 3,484,063</u>	<u>\$ 17,138,639</u>
Component unit - Economic Development Corporation	<u>\$ 318</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenue				
Unrestricted interest earnings				
Unrestricted cable television franchise fees				
Miscellaneous				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2004

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component
Governmental	Business-type	Total	Unit -
Activities	Activities		Economic
			Development
			Corporation
\$ (5,930,308)	\$ -	\$ (5,930,308)	\$ -
(12,858,916)	-	(12,858,916)	-
(3,882,712)	-	(3,882,712)	-
(260,089)	-	(260,089)	-
(2,628,812)	-	(2,628,812)	-
(3,788,247)	-	(3,788,247)	-
(29,349,084)	-	(29,349,084)	-
-	11,662,062	11,662,062	-
-	44,431	44,431	-
-	(99,498)	(99,498)	-
-	11,606,995	11,606,995	-
(29,349,084)	11,606,995	(17,742,089)	-
-	-	-	(318)
28,321,001	-	28,321,001	-
3,812,543	-	3,812,543	-
949,504	1,349,270	2,298,774	477
266,880	-	266,880	-
821,331	-	821,331	-
34,171,259	1,349,270	35,520,529	477
4,822,175	12,956,265	17,778,440	159
97,039,362	132,834,749	229,874,111	64,402
\$ 101,861,537	\$ 145,791,014	\$ 247,652,551	\$ 64,561

City of Novi, Michigan

Governmental Funds Balance Sheet June 30, 2004

	General Fund	Municipal Street Fund	2000 Voted Street Construction	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments (Note 3)	\$ 3,903,124	\$ 2,010,344	\$ 7,330,519	\$ 17,726,559	\$ 30,970,546
Accounts receivable:					
Other governmental units	1,265,707	45,732	-	548,789	1,860,228
Taxes	363,241	58,488	-	412,107	833,836
Special assessments	-	17,158,462	-	911,804	18,070,266
Other	118,386	-	-	61,760	180,146
Due from other funds (Note 4)	636,138	-	-	-	636,138
Restricted assets (Note 5)	-	2,720,551	-	3,624,597	6,345,148
Total assets	\$ 6,286,596	\$ 21,993,577	\$ 7,330,519	\$ 23,285,616	\$ 58,896,308
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 503,523	\$ 512,274	\$ 204,945	\$ 883,985	\$ 2,104,727
Accrued and other liabilities	637,578	-	-	160,669	798,247
Due to other funds (Note 4)	-	-	-	13,892	13,892
Deferred revenue (Note 7)	12,188	17,176,904	-	1,028,946	18,218,038
Total liabilities	1,153,289	17,689,178	204,945	2,087,492	21,134,904
Fund Balances					
Fund balances:					
Reserved for - Restricted assets	-	2,704,158	-	3,607,237	6,311,395
Unreserved, reported in:					
General Fund - Designated (Note 11)	177,882	-	-	-	177,882
General Fund - Undesignated	4,955,425	-	-	-	4,955,425
Special Revenue Funds - Designated (Note 11)	-	740,595	-	4,228,457	4,969,052
Special Revenue Funds - Undesignated	-	859,646	-	11,470,685	12,330,331
Debt Service Funds - Undesignated	-	-	-	1,372,204	1,372,204
Capital Projects Funds - Undesignated	-	-	7,125,574	519,541	7,645,115
Total fund balances	5,133,307	4,304,399	7,125,574	21,198,124	37,761,404
Total liabilities and fund balances	\$ 6,286,596	\$ 21,993,577	\$ 7,330,519	\$ 23,285,616	\$ 58,896,308

City of Novi, Michigan

Governmental Funds Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

Total Fund Balances for Governmental Funds	\$ 37,761,404
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	120,447,933
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures (including \$958,246 of accrued interest on special assessments)	18,622,800
Bonds, obligations, and agreements are not due and payable in the current period and are not reported in the funds	(71,171,000)
Compensated absences are not due and payable in the current period and are not reported in the funds	(2,490,240)
Estimated general liability claims are not due and payable in the current period and are not reported in the funds	(522,300)
Interest related to long-term debt is not due and payable in the current period and is not reported in the funds	(787,060)
Net Assets of Governmental Activities	<u>\$ 101,861,537</u>

City of Novi, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2004

	General Fund	Municipal Street Fund	2000 Voted Street Construction	Nonmajor Governmental Funds	Total Governmental Funds
Revenue					
Taxes	\$ 12,234,866	\$ 2,071,185	\$ -	\$ 14,014,950	\$ 28,321,001
Licenses, permits, and charges for services	3,067,750	-	-	-	3,067,750
Federal grants	126,041	10,183	-	163,842	300,066
State sources	3,812,543	-	-	3,046,824	6,859,367
Special assessments collected	-	1,007,875	-	129,412	1,137,287
Fines and forfeitures	363,589	-	-	105,479	469,068
Interest income	351,548	1,127,092	171,836	459,010	2,109,486
Recreational programs	-	-	-	771,552	771,552
Gifts and donations	-	-	-	1,008,007	1,008,007
Other revenue	618,316	100,849	-	303,859	1,023,024
Total revenue	20,574,653	4,317,184	171,836	20,002,935	45,066,608
Expenditures					
Current services:					
City Council	4,517	-	-	-	4,517
City manager	538,867	-	-	-	538,867
Finance	638,614	-	-	-	638,614
Information technology	347,143	-	-	-	347,143
Assessing	610,956	-	-	-	610,956
City Attorney	548,850	-	-	-	548,850
City Clerk	446,794	-	-	-	446,794
Treasury	272,318	-	-	-	272,318
Buildings and grounds	822,787	-	-	-	822,787
Community relations	254,535	-	-	-	254,535
General administration	1,495,185	1,650	-	1,926	1,498,761
Police department	9,020,762	-	-	-	9,020,762
Fire department	3,452,750	-	-	-	3,452,750
Building department	1,536,733	-	-	-	1,536,733
Neighborhood services	411,568	-	-	-	411,568
Department of Public Works	1,031,675	-	-	-	1,031,675
Engineering	202,373	-	-	-	202,373
Planning Commission	26,712	-	-	-	26,712
Planning	675,693	-	-	-	675,693
Construction	-	2,211,147	8,841,894	2,806,904	13,859,945
Street maintenance	-	172,321	-	2,010,149	2,182,470
Drain maintenance	-	-	-	407,066	407,066
Recreational programs	-	-	-	1,697,907	1,697,907
Forestry and park maintenance	-	-	-	898,072	898,072
Library programs	-	-	-	2,167,782	2,167,782
Other	-	-	-	330,636	330,636
Capital outlay	-	-	-	548,054	548,054
Debt service	34,912	1,978,175	-	6,385,936	8,399,023
Total expenditures	22,373,744	4,363,293	8,841,894	17,254,432	52,833,363
Excess of Revenue Over (Under) Expenditures	(1,799,091)	(46,109)	(8,670,058)	2,748,503	(7,766,755)

City of Novi, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Continued) Year Ended June 30, 2004

	General Fund	Municipal Street Fund	2000 Voted Street Construction	Nonmajor Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)					
Issuance of debt	\$ -	\$ -	\$ -	\$ 6,565,000	\$ 6,565,000
Payment to escrow agent	-	-	-	(6,484,044)	(6,484,044)
Transfers in (Note 4)	3,207,527	-	-	3,041,874	6,249,401
Transfers out (Note 4)	(1,568,175)	-	-	(4,681,226)	(6,249,401)
Total other financing sources (uses)	1,639,352	-	-	(1,558,396)	80,956
Net Change in Fund Balances	(159,739)	(46,109)	(8,670,058)	1,190,107	(7,685,799)
Fund Balances - Beginning of year	5,293,046	4,350,508	15,795,632	20,008,017	45,447,203
Fund Balances - End of year	\$ 5,133,307	\$ 4,304,399	\$ 7,125,574	\$ 21,198,124	\$ 37,761,404

City of Novi, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds \$ (7,685,799)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	9,234,524
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(1,151,066)
Proceeds of bonds are recorded as a revenue and repayment of bond principal as an expenditure in the governmental funds, but not in the statement of activities (where these transactions are recorded as a liability and a reduction of a liability, respectively)	4,399,835
Increase in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	(294,870)
Decrease in estimated general liability is recorded when paid in the governmental funds	69,880
Interest accrued on long-term debt is an expenditure in the statement of activities, but not in the governmental funds	<u>249,671</u>

Change in Net Assets of Governmental Activities \$ 4,822,175

City of Novi, Michigan

Proprietary Funds Statement of Net Assets (Deficit) June 30, 2004

	Water and Sewer Fund	Ice Arena Fund	Senior Housing Fund	Total Enterprise Fund
Assets				
Current assets:				
Cash and cash equivalents (Note 3)	\$ 39,510,451	\$ 137,492	\$ 1,187,250	\$ 40,835,193
Accounts receivable:				
Water and sewer billing	2,392,001	-	-	2,392,001
Other	868,283	9,028	35,294	912,605
Prepaid expense	-	467	6,000	6,467
Inventory	104,363	3,778	-	108,141
Total current assets	42,875,098	150,765	1,228,544	44,254,407
Noncurrent assets:				
Restricted assets (Note 5)	10,505,222	-	-	10,505,222
Capital assets (Note 6)	114,678,118	7,899,745	14,263,696	136,841,559
Total noncurrent assets	125,183,340	7,899,745	14,263,696	147,346,781
Total assets	168,058,438	8,050,510	15,492,240	191,601,188
Liabilities				
Current liabilities:				
Accounts payable	2,323,103	52,920	-	2,376,023
Accrued and other liabilities	460,685	71,150	343,400	875,235
Due to other funds (Note 4)	-	622,246	-	622,246
Deferred revenue	-	-	5,359	5,359
Receipts refundable	396,311	-	-	396,311
Current portion of long-term liabilities (Note 8)	1,285,000	200,000	300,000	1,785,000
Total current liabilities	4,465,099	946,316	648,759	6,060,174
Noncurrent liabilities - Long-term debt	17,900,000	7,350,000	14,500,000	39,750,000
Total liabilities	22,365,099	8,296,316	15,148,759	45,810,174
Net Assets (Deficit)				
Invested in capital assets - Net of related debt	95,493,118	349,745	(536,304)	95,306,559
Restricted for:				
Bond reserve	1,475,000	-	-	1,475,000
Special assessments	9,030,222	-	-	9,030,222
Replacement reserve	-	-	400,000	400,000
Unrestricted (deficit)	39,694,999	(595,551)	479,785	39,579,233
Total net assets (deficit)	<u>\$ 145,693,339</u>	<u>\$ (245,806)</u>	<u>\$ 343,481</u>	<u>\$ 145,791,014</u>

City of Novi, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets (Deficit) Year Ended June 30, 2004

	Water and Sewer Fund	Ice Arena Fund	Senior Housing Fund	Total Enterprise Fund
Operating Revenue				
Water sales	\$ 5,871,248	\$ -	\$ -	\$ 5,871,248
Sewer service charges	5,018,669	-	-	5,018,669
Concession sales	-	132,474	-	132,474
Rentals and other charges for services	-	1,630,748	1,646,593	3,277,341
Penalties	120,731	-	-	120,731
Inspection fees	19,340	-	-	19,340
Installation charges	515,182	-	-	515,182
Miscellaneous revenue	365,065	66,162	17,552	448,779
	<u>11,910,235</u>	<u>1,829,384</u>	<u>1,664,145</u>	<u>15,403,764</u>
Operating Expenses				
Cost of water	4,930,159	-	-	4,930,159
Cost of sewage disposal	4,484,547	-	-	4,484,547
Cost of goods sold	-	58,472	-	58,472
Salaries and fringe benefits	862,389	-	-	862,389
Contractual services	38,296	523,764	156,246	718,306
Management contract	-	111,895	41,097	152,992
Municipal service charges	305,000	-	-	305,000
Depreciation	2,723,820	256,148	356,318	3,336,286
Repairs and maintenance	123,425	38,893	178,500	340,818
Utilities	9,162	214,081	107,577	330,820
Insurance	21,259	16,622	29,720	67,601
Office supplies	18,525	1,513	8,435	28,473
Advertising	-	12,594	3,997	16,591
Professional services	175,505	2,060	4,460	182,025
Operating supplies	35,226	37,488	17,994	90,708
Installation expenses	519,525	-	-	519,525
Vehicle expenses	32,736	-	-	32,736
Education and training	3,983	4,807	-	8,790
Recreational programs	-	71,101	-	71,101
Miscellaneous expenses	22,428	11,161	5,574	39,163
	<u>14,305,985</u>	<u>1,360,599</u>	<u>909,918</u>	<u>16,576,502</u>
Operating Income (Loss)	(2,395,750)	468,785	754,227	(1,172,738)
Nonoperating Income (Expense)				
Interest earned	1,426,626	-	37,081	1,463,707
Interest expense	(844,598)	(437,454)	(853,725)	(2,135,777)
Total nonoperating income (expense)	<u>582,028</u>	<u>(437,454)</u>	<u>(816,644)</u>	<u>(672,070)</u>

City of Novi, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets (Deficit) (Continued) Year Ended June 30, 2004

	Water and Sewer Fund	Ice Arena Fund	Senior Housing Fund	Total Enterprise Fund
Nonoperating Income (Loss) - Before capital contributions	\$ (1,813,722)	\$ 31,331	\$ (62,417)	\$ (1,844,808)
Capital Contributions				
Contributions and donations	-	13,100	-	13,100
Donated water and sewer lines	3,842,364	-	-	3,842,364
Customer assessments - Tap fees	6,927,630	-	-	6,927,630
Special assessments	4,017,979	-	-	4,017,979
Total capital contributions	<u>14,787,973</u>	<u>13,100</u>	<u>-</u>	<u>14,801,073</u>
Change in Net Assets	12,974,251	44,431	(62,417)	12,956,265
Net Assets (Deficit) - Beginning of year	<u>132,719,088</u>	<u>(290,237)</u>	<u>405,898</u>	<u>132,834,749</u>
Net Assets (Deficit) - End of year	<u><u>\$ 145,693,339</u></u>	<u><u>\$ (245,806)</u></u>	<u><u>\$ 343,481</u></u>	<u><u>\$ 145,791,014</u></u>

City of Novi, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2004

	Water and Sewer Fund	Ice Arena Fund	Senior Housing Fund	Total Enterprise Fund
Cash Flows from Operating Activities				
Receipts from customers	\$ 11,085,577	\$ 1,770,313	\$ 1,627,832	\$ 14,483,722
Payments to suppliers	(10,476,192)	(1,074,721)	(554,885)	(12,105,798)
Payments to employees	(862,389)	-	-	(862,389)
Internal activity - Payments to other funds	-	(140,257)	-	(140,257)
Other receipts	365,065	66,162	17,552	448,779
Net cash provided by operating activities	112,061	621,497	1,090,499	1,824,057
Cash Flows from Capital and Related Financing Activities				
Collection of customer assessments (principal and interest)	7,557,840	-	-	7,557,840
Purchase of capital assets	(3,981,034)	(2,671)	(9,506)	(3,993,211)
Proceeds from issuance of debt	2,330,000	-	-	2,330,000
Principal and interest paid on capital debt	(1,928,228)	(638,787)	(1,159,350)	(3,726,365)
Net cash (used in) provided by capital and related financing activities	3,978,578	(641,458)	(1,168,856)	2,168,264
Cash Flows from Investing Activities - Interest received on investments	1,426,626	-	37,081	1,463,707
Net Increase (Decrease) in Cash and Cash Equivalents	5,517,265	(19,961)	(41,276)	5,456,028
Cash and Cash Equivalents - Beginning of year	40,707,310	157,453	1,228,526	42,093,289
Cash and Cash Equivalents - End of year	<u>\$ 46,224,575</u>	<u>\$ 137,492</u>	<u>\$ 1,187,250</u>	<u>\$ 47,549,317</u>
Balance Sheet Classification of Cash and Cash Equivalents				
Cash and investments	\$ 39,510,451	\$ 137,492	\$ 1,187,250	\$ 40,835,193
Restricted investments (Note 3)	6,714,124	-	-	6,714,124
Total cash and cash equivalents	<u>\$ 46,224,575</u>	<u>\$ 137,492</u>	<u>\$ 1,187,250</u>	<u>\$ 47,549,317</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	\$ (2,395,750)	\$ 468,785	\$ 754,227	\$ (1,172,738)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	2,723,820	256,148	356,318	3,336,286
Changes in assets and liabilities:				
Receivables	(696,752)	(7,800)	(21,795)	(726,347)
Inventory	(405)	-	-	(405)
Other assets	-	(4,245)	-	(4,245)
Accounts payable	243,989	32,186	-	276,175
Accrued and other liabilities	237,159	16,680	1,749	255,588
Internal activity	-	(140,257)	-	(140,257)
Net cash provided by operating activities	<u>\$ 112,061</u>	<u>\$ 621,497</u>	<u>\$ 1,090,499</u>	<u>\$ 1,824,057</u>

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2004, developers constructed water and sewer lines with an estimated value of \$3,842,364 and donated them to the City. In addition, the City has funds on deposit with both Wayne County and Oakland County for the construction of water and sewer lines. During the year, \$244,773 was contributed to and spent from these funds for construction, and \$71,751 of these funds were returned to the City.

City of Novi, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2004

	Pension and Other Employee Benefits - Retiree Health Care Benefits	Agency
Assets (Note 3)		
Cash and cash equivalents	\$ 697,954	\$ 5,330,878
U.S. government securities	-	2,500,000
Bank investment pools	100,746	1,387,533
Mutual funds	1,168,307	-
Interlocal agreement investment pools	1,510,967	1,964,388
Total assets	3,477,974	<u><u>\$ 11,182,799</u></u>
Liabilities		
Due to builders and developers	-	\$ 11,114,966
Due to school and other governmental units	-	67,833
Total liabilities	-	<u><u>\$ 11,182,799</u></u>
Net Assets - Held in trust for pension and other employee benefits	<u><u>\$ 3,477,974</u></u>	

City of Novi, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2004

	Pension and Other Employee Benefits - Retiree Health Care Benefits
Additions	
Investment income - Net increase in fair value of investments	\$ 132,816
Contributions - Employer	<u>623,945</u>
Total additions	756,761
Deductions - Insurance expenses	<u>149,788</u>
Change in Net Assets	606,973
Net Assets - Beginning of year	<u>2,871,001</u>
Net Assets - End of year	<u><u>\$ 3,477,974</u></u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Novi (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Novi:

Reporting Entity

The City is governed by an elected seven-member City Council. As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Novi and its component unit. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

Discretely Presented Component Unit - The Economic Development Corporation of the City of Novi was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Corporation's governing body is selected by the City Council, and therefore, the City has the ability to impose its will on the Corporation. The Corporation is reported within the component unit column in the combined financial statements. It is reported in a separate column to emphasize that it is legally separate from the City. A separate financial report for the Economic Development Corporation may be obtained from the finance department located at the City of Novi Civic Center, 45175 W. Ten Mile Road, Novi, MI 48375.

Blended Component Unit - The City of Novi Building Authority is governed by a council that is appointed by the mayor. Although it is legally separate from the City, it is reported as if it were part of the primary government because its sole purpose is to finance the City's Ice Arena and Senior Housing project.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

Note I - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue. This also includes unrestricted franchise fees that result from cable television fees, not a program of the City.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to debt service compensated absences, and claims and judgments are recorded only when payment is due.

Note I - Summary of Significant Accounting Policies (Continued)

Property taxes, franchise taxes, licenses, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Municipal Street Fund - The Municipal Street Fund is used to enhance the Major and Local Street Funds. This fund receives its revenue pursuant to a special millage as designated by Charter for street and highway improvement purposes.

2000 Voted Street Construction Fund - The 2000 Voted Street Construction Fund accounts for major construction and road improvement activities financed through bond proceeds.

The City reports the following major proprietary funds:

Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Ice Arena Fund - The Ice Arena Fund accounts for the City's two-sheet arena.

Senior Housing Fund - The Senior Housing Fund accounts for the 175-unit senior housing project, financed using the Building Authority approach.

Additionally, the City reports the following fiduciary trust fund types:

Pension and Other Employee Benefits Funds - The Retiree Health Care Benefits Fund accounts for medical benefits provided to retirees.

Agency Fund - The Agency Fund accounts for assets held by the governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or funds.

Note 1 - Summary of Significant Accounting Policies (Continued)

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services, such as water and sewer distribution and collection, recreational services, and senior housing in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and investments include amounts in demand deposits, time deposits, U.S. governmental securities, interlocal agreements, bank investment pools, and mutual funds. Investments are reported at fair value, based on quoted market prices.

Cash Equivalents - For the purpose of the statement of cash flows, the proprietary funds consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Note 1 - Summary of Significant Accounting Policies (Continued)

Property Tax Revenue - All trade and personal property tax receivables are shown as net of allowance for uncollectible amounts, if applicable. Properties are assessed as of December 31; the related property taxes are billed and become a lien on July 1 of the following year. These taxes are due without penalty during the period from July 1 through August 31 with the final collection date of February 28 before they are added to the county tax rolls. The County Tax Revolving Fund reimburses the City for the real property portion of these taxes and assumes collection responsibilities.

The 2003 taxable valuation of the City totaled \$2.679 billion and is used for the July 1, 2003 tax bills; this resulted in property tax revenue as follows:

Purpose	Mills Levied	Approximate Revenue
City operating millage	4.4985	\$ 12,051,000
Police and fire supplemental millage	1.4388	3,854,000
Parks and recreation operations	0.3886	1,041,000
Library operations	0.7776	2,083,000
Drain maintenance and operations	0.6005	1,608,000
Street maintenance and operations	0.7776	2,083,000
Debt levies for streets, fire station, and refunding debt	2.0600	5,518,000

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - Certain proceeds of the City's Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The "revenue bond reserve" account is used to report resources set aside to protect against any potential future deficiencies in the revenue bond current debt service account.

Note I - Summary of Significant Accounting Policies (Continued)

In addition, specific assets held at Wayne County and Oakland County for various water and sewer system-related contracts are classified as restricted assets on the balance sheet because the City has turned over control of these assets to the counties based on specific contracts with them. The City has also classified as restricted assets those amounts due from special assessment contracts with property owners for water and sewer system and road construction and related debt payments due to the restricted nature of these funds once they are received.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets are depreciated using the straight-line method over the following useful lives:

Roads, sidewalks, bridges, and nonmotorized improvements	25 to 30 years
Drains	25 years
Water and sewer distribution systems	50 years
Buildings and building improvements	35 to 50 years
Machinery and equipment	4 to 10 years
Library books	10 years

Compensated Absences - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. This liability has typically been charged to operations in the General, Parks, Recreation and Forestry, and Library Funds in prior years.

Note 1 - Summary of Significant Accounting Policies (Continued)

The City's liability for compensated absences at June 30, 2004 consisted of the following:

	Governmental Activities	Business-type Activities	Total
Due within one year	\$ 1,488,260	\$ 64,750	\$ 1,553,010
Due in more than one year	1,001,980	-	1,001,980
Total compensated absences	<u>\$ 2,490,240</u>	<u>\$ 64,750</u>	<u>\$ 2,554,990</u>

Changes in the liability for compensated absences are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities	\$ 2,195,730	\$ 947,109	\$ (652,599)	\$ 2,490,240
Business-type activities	63,800	23,934	(22,984)	64,750
Total compensated absences	<u>\$ 2,259,530</u>	<u>\$ 971,043</u>	<u>\$ (675,583)</u>	<u>\$ 2,554,990</u>

Claims and Judgments - The liability for claims and judgments has typically been charged to operations in the Judgment Trust and General Funds in prior years.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

The City adopts a formal budget for the General Fund and all Special Revenue Funds. All department heads submit spending requests to the City Manager so that a budget may be prepared. Before the third Monday in April, the proposed budget is submitted to the City Council for review. Public hearings are held, and a final budget is adopted no later than the third Monday in May. Adoption of the budget requires approval of five votes of the seven-member City Council. The City Council must approve any budget amendments.

During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the General and Municipal Street Funds is presented as required supplemental information. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the nonmajor Special Revenue Funds is presented as other supplemental information.

The budget is adopted by category within activity (i.e., personal services, supplies, other services, and charges and capital outlay within each department). Although spending estimates are produced for each line item, budgetary control is exercised at this category level. Expenditures at this level must be approved by the City Council. Expenditures at this level in excess of budget appropriation are a violation of Michigan law. Encumbrances represent commitments related to unperformed contracts (or purchase orders) for goods or services. Encumbrances are not included as expenditures or liabilities; the amount of encumbrances outstanding at June 30, 2004 is not significant.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, except that transfers have been included in the "revenue" and "expenditure" categories, rather than as "other financing sources (uses)." Budgets have not been prepared for the Walker Building Fund and the Contributions and Donations Fund.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City of Novi incurred expenditures that were in excess of the amounts budgeted. The unfavorable variances were caused by unanticipated expenditures that became necessary during the year. There are no significant budget overruns.

Fund Deficits - The Ice Arena has an accumulated deficit of \$245,806 as of June 30, 2004. This deficit will be eliminated in the future through increases in user charges to competitive market rates, maintaining costs, and additional revenue from a cellular tower agreement with Sprint, entered into by the City of Novi during fiscal year 2000-2001. This agreement generated \$27,392 for the Ice Arena for the year ended June 30, 2004.

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated 11 banks and 12 financial service institutions for the deposit of funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized the City to deposit and invest in all investments allowed by the State statutory authority as listed above except for obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service; and, investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

The City of Novi's deposits and investment policies are in accordance with statutory authority.

City of Novi, Michigan

Notes to Financial Statements June 30, 2004

Note 3 - Deposits and Investments (Continued)

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary and Agency Funds	Total Primary Government	Component Units
Cash and investments	\$ 30,970,546	\$ 40,835,193	\$ 14,660,773	\$ 86,466,512	\$ 29,561
Restricted assets (Note 5)	6,345,148	6,714,124	-	13,059,272	-
Total	<u>\$ 37,315,694</u>	<u>\$ 47,549,317</u>	<u>\$ 14,660,773</u>	<u>\$ 99,525,784</u>	<u>\$ 29,561</u>

The breakdown between deposits and investments for the City is as follows:

	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 35,807,850	\$ 29,561
Investments in securities, mutual funds, and similar vehicles	63,712,131	-
Petty cash or cash on hand	5,803	-
Total	<u>\$ 99,525,784</u>	<u>\$ 29,561</u>

The bank balance of the City's deposits is \$36,201,359, of which \$400,000 is covered by federal depository insurance and the remainder is uninsured and uncollateralized. The component unit's deposit had a bank balance of \$29,561, of which all was covered by federal depository insurance.

At year end, the City's investment balances were categorized as follows:

Primary government - U.S. government securities (uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name)	\$ 38,224,529
Investments not subject to categorization:	
Bank investment pool funds	19,863,546
Interlocal agreement investment pool funds	4,173,668
Mutual funds	1,450,388
Total primary government	<u>\$ 63,712,131</u>

Note 3 - Deposits and Investments (Continued)

Investments not subject to categorization are not evidenced by securities that exist in physical or book entry form. The bank investment pools, interlocal agreement investment pool, and mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The mutual funds are registered with the SEC. The bank investment pools are regulated by the Michigan Banking Act. Investments under the interlocal agreement are regulated by the Urban Cooperation Act. The fair value of the position in the bank investment pools and interlocal agreement pools is the same as the value of the pool shares.

Included in the City's investments at the balance sheet date are the following:

- Approximately \$7,888,000 of collateralized mortgage obligations (or obligations of the Federal National Mortgage Association)
- Approximately \$17,269,000 of obligations of the Federal Home Loan Bank
- Approximately \$6,839,000 of mortgage-backed securities of the Federal Home Loan Mortgage Corporation

These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

Note 4 - Interfund Receivables, Payables, and Transfers

The following is a summary of the interfund receivables at June 30, 2004:

Fund Due To	Fund Due From	Amount
General Fund	Ice Arena	\$ 622,246
	1997 Fire Capital Improvement	<u>13,892</u>
	Total interfund receivables	<u><u>\$ 636,138</u></u>

Note 4 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund transfers consist of the following:

Transfer of property taxes collected by the Police and Fire Fund to the General Fund, where police and fire salaries are reported	\$ 3,207,527
Transfers of resources related to street expenditures (certain funds account for resources that are intended to be spent in other funds):	
Transfer from Major Street Fund to Local Street Fund	560,921
Transfer from Major Street Fund to 2002 Michigan Transportation Refunding Debt Fund	125,566
Transfer of unrestricted General Fund resources to fund the Parks and Recreation programs	645,000
Transfer of unrestricted resources to fund the Judgment Trust Fund from the General Fund	387,000
Transfer from the Parks and Recreation Fund to the Contributions and Donations Fund	110,760
Transfer from General Fund to fund debt service of the 2000 Limited Tax Debt Fund	236,175
Transfer from General Fund to fund future capital projects in the Capital Improvement Fund	300,000
Transfer from 1997 Voted Streets Debt Fund to 2003 Refunding Debt Fund	29,831
Transfer from 1999 Police Building Construction Fund to 1999 Police Debt Fund	646,621
	<hr/>
Total interfund transfers	\$ 6,249,401

Note 5 - Restricted Assets and Reserves

Governmental Activities

Following is the detail of the governmental activities restricted assets at June 30, 2004:

Special Revenue Funds:

Cash and investments restricted for special assessments	\$ 5,195,935
Cash and investments restricted for contributions and donations	1,149,213
	<hr/>
Total Special Revenue Funds	\$ 6,345,148

Business-type Activities

Specific assets of the business-type activities have been restricted by City ordinances, contracts with Oakland County, and special assessment contracts with property owners for water and sewer system construction and related debt payments.

Note 5 - Restricted Assets and Reserves (Continued)

Following is the detail of the business-type activities restricted assets at June 30, 2004:

Water and Sewer Fund:	
Cash and investments restricted for 1992 revenue bond	\$ 1,475,000
Cash and investments restricted for special assessments	<u>5,239,124</u>
Total restricted cash and investments	6,714,124
Special assessments receivable	3,725,313
Net assets held by county:	
North Huron Valley/Rouge Valley	57,351
Huron-Rouge S.D.S., Walled Lake Arm Waste Water Treatment Plant	<u>8,434</u>
Net assets restricted in Water and Sewer Fund	<u>\$ 10,505,222</u>

Note 6 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Governmental Activities				
Capital assets not being depreciated -				
Land	\$ 21,733,901	\$ 1,199,925	\$ -	\$ 22,933,826
Capital assets being depreciated:				
Roads	82,387,745	11,885,688	-	94,273,433
Nonmotorized pathway improvements	3,074,622	-	891	3,073,731
Bridges	1,227,639	113,991	-	1,341,630
Drains	17,008,509	560,736	-	17,569,245
Buildings and improvements	22,620,579	714,748	-	23,335,327
Machinery and equipment	8,682,245	693,612	798,165	8,577,692
Library books	<u>3,246,180</u>	<u>498,750</u>	<u>-</u>	<u>3,744,930</u>
Subtotal	138,247,519	14,467,525	799,056	151,915,988

Note 6 - Capital Assets (Continued)

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Governmental Activities (Continued)				
Accumulated depreciation:				
Roads	\$ 24,192,236	\$ 3,770,939	\$ -	\$ 27,963,175
Nonmotorized pathway improvements	840,788	102,487	891	942,384
Bridges	151,106	53,665	-	204,771
Drains	7,906,278	702,771	-	8,609,049
Buildings and improvements	7,517,799	583,385	-	8,101,184
Machinery and equipment	6,189,536	845,186	798,165	6,236,557
Library books	1,970,268	374,493	-	2,344,761
Subtotal	48,768,011	6,432,926	799,056	54,401,881
Net capital assets being depreciated	89,479,508	8,034,599	-	97,514,107
Net capital assets	<u>\$ 111,213,409</u>	<u>\$ 9,234,524</u>	<u>\$ -</u>	<u>\$ 120,447,933</u>
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 2,034,701	\$ -	\$ -	\$ 2,034,701
Construction in progress	12,351,305	3,470,689	-	15,821,994
Subtotal	14,386,006	3,470,689	-	17,856,695
Capital assets being depreciated:				
Water and sewer distribution systems	125,761,018	4,290,850	-	130,051,868
Buildings and building improvements	23,059,941	9,506	-	23,069,447
Machinery and equipment	1,979,623	77,630	252,052	1,805,201
Subtotal	150,800,582	4,377,986	252,052	154,926,516
Accumulated depreciation:				
Water and sewer distribution systems	29,143,358	2,601,456	-	31,744,814
Buildings and building improvements	2,499,835	607,780	-	3,107,615
Machinery and equipment	1,214,225	127,050	252,052	1,089,223
Subtotal	32,857,418	3,336,286	252,052	35,941,652
Net capital assets being depreciated	117,943,164	1,041,700	-	118,984,864
Net capital assets	<u>\$ 132,329,170</u>	<u>\$ 4,512,389</u>	<u>\$ -</u>	<u>\$ 136,841,559</u>

City of Novi, Michigan

Notes to Financial Statements June 30, 2004

Note 6 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 169,571
Public safety	746,398
Public works	4,917,011
Recreation and culture	<u>599,946</u>

Total governmental activities	<u>\$ 6,432,926</u>
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Business-type activities:

Water and sewer	\$ 2,723,820
Ice arena	256,148
Senior housing	<u>356,318</u>

Total business-type activities	<u>\$ 3,336,286</u>
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Construction Commitments - The City has active construction projects as of June 30, 2004. At year end, the City's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
Street construction	\$ 3,558,052	\$ 4,127,720
Sewer projects	3,071,597	125,536
Water mains	1,839,324	765,905
Detention basins	-	1,165,346
Bridges	164,704	18,300
Parks and buildings	<u>1,801,274</u>	<u>644,686</u>
Total	<u>\$ 10,434,951</u>	<u>\$ 6,847,493</u>

Note 7 - Receivables

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Special assessments	\$ 17,664,554	\$ 424,154
Recreation fees and other	-	129,330
Total	<u>\$ 17,664,554</u>	<u>\$ 553,484</u>

Note 8 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Note 8 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
General obligation bonds:							
1993 Unlimited Tax Refunding Bonds							
Amount of issue - \$10,230,000							
Maturing through 2009	4.80% - 5.25%	\$740,000- \$1,010,000	\$ 7,425,000	\$ -	\$ (795,000)	\$ 6,630,000	\$ 1,010,000
1997A Unlimited Tax Road Bonds							
Amount of issue - \$9,000,000							
Maturing through 2004	4.75%	\$600,000	1,200,000	-	(600,000)	600,000	600,000
1997B Unlimited Tax Fire Station Bonds							
Amount of issue - \$2,225,000							
Maturing through 2004	4.75%	\$150,000	300,000	-	(150,000)	150,000	150,000
1998 Unlimited Tax Road Bonds							
Amount of issue - \$8,100,000							
Maturing through 2004	4.20%	\$400,000	7,000,000	-	(6,600,000)	400,000	400,000
1999 Unlimited Tax Police Station Bonds							
Amount of issue - \$3,500,000							
Maturing through 2018	4.10% - 5.25%	\$150,000- \$300,000	3,200,000	-	(100,000)	3,100,000	150,000
2001 Tax Road Bonds							
Amount of issue - \$10,000,000							
Maturing through 2015	3.60%- 4.50%	\$300,000- \$1,100,000	9,750,000	-	(300,000)	9,450,000	500,000
2002 Limited Tax Bonds							
Amount of issue - \$2,000,000							
Maturing through 2012	4.00% - 5.00%	\$150,000- \$275,000	2,000,000	-	(150,000)	1,850,000	150,000
2002 Street and Refunding Bonds							
Amount of issue - \$24,720,000							
Maturing through 2017	2.75% - 5.25%	\$595,000- \$3,740,000	24,720,000	-	(840,000)	23,880,000	1,165,000
2003 Unlimited Tax Refunding Bonds							
Amount of issue - \$6,565,000							
Maturing through 2011	1.50% - 3.50%	\$115,000- \$1,000,000	-	6,565,000	-	6,565,000	115,000
2002 Michigan Transportation Fund Refunding Bonds							
Amount of issue - \$2,280,000							
Maturing through 2009	2.75% - 3.50%	\$265,000- \$315,000	2,280,000	-	(265,000)	2,015,000	270,000
Special Assessment Bonds:							
1995 Special Assessment Bonds							
Amount of issue - \$1,700,000							
Maturing through 2009	6.00% - 6.75%	\$100,000- \$125,000	840,000	-	(125,000)	715,000	125,000
2000 Special Assessment Limited Tax Bonds							
Amount of issue - \$18,435,000							
Maturing through 2015	4.75% - 6.75%	\$1,000,000- \$1,500,000	16,750,000	-	(1,000,000)	15,750,000	1,000,000

City of Novi, Michigan

Notes to Financial Statements June 30, 2004

Note 8 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities (Continued)							
County Drain Contract Obligations - Caddell Drain County Contract Amount of issue - \$134,617 Maturing through 2003	-	-	\$ 8,835	\$ -	\$ (8,835)	\$ -	\$ -
Installment Purchase Agreements - Lakeshore Park Property Installment Contract Amount of issue - \$126,000 Maturing through 2005	4.80%	\$32,000- \$34,000	97,000	-	(31,000)	66,000	32,000
Total governmental activities long-term liabilities			<u>\$ 75,570,835</u>	<u>\$ 6,565,000</u>	<u>\$ (10,964,835)</u>	<u>\$ 71,171,000</u>	<u>\$ 5,667,000</u>
Business-type Activities							
County Drain Contract Obligations: Oakland County Contract Amount of issue - \$8,200,000 Maturing through 2008	5.00%	\$750,000	\$ 750,000	\$ -	\$ -	\$ 750,000	\$ -
Oakland County Contract Amount of issue - \$8,080,000 Maturing through 2009	4.80% - 5.20%	\$85,000- \$850,000	3,075,000	-	(650,000)	2,425,000	685,000
Special Assessment Bonds - 2003 Special Assessment Limited Bonds Amount of issue - \$2,330,000 Maturity through 2017	2.00% - 4.00%	\$75,000- \$200,000	-	2,330,000	-	2,330,000	75,000
Revenue Bonds: 1997 Water and Sewer Disposal System Revenue Bond Amount of issue - \$5,225,000 Maturing through 2012	4.55% - 5.15%	\$325,000- \$505,000	4,305,000	-	(325,000)	3,980,000	325,000
1998 Water and Sewer Disposal System Revenue Bond Amount of issue - \$10,000,000 Maturing through 2019	4.25% - 7.00%	\$200,000- \$1,000,000	9,800,000	-	(100,000)	9,700,000	200,000
Building Authority Bonds: 1997 Ice Arena Recreation Facility Bond Amount of issue - \$8,500,000 Maturing through 2024	5.25% - 8.00%	\$200,000- \$575,000	7,750,000	-	(200,000)	7,550,000	200,000
1999 Senior Complex Recreation Facility Bond Amount of issue - \$15,300,000 Maturing through 2025	5.10% - 7.50%	\$300,000- \$1,200,000	15,100,000	-	(300,000)	14,800,000	300,000
Total business-type activities long-term liabilities			<u>\$ 40,780,000</u>	<u>\$ 2,330,000</u>	<u>\$ (1,575,000)</u>	<u>\$ 41,535,000</u>	<u>\$ 1,785,000</u>

Note 8 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above governmental bond and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 5,667,000	\$ 2,989,956	\$ 8,656,956	\$ 1,785,000	\$ 2,158,011	\$ 3,943,011
2006	6,059,000	2,741,714	8,800,714	2,060,000	2,031,384	4,091,384
2007	6,190,000	2,512,066	8,702,066	2,295,000	1,919,824	4,214,824
2008	7,025,000	2,261,863	9,286,863	2,380,000	1,793,585	4,173,585
2009	7,250,000	1,963,190	9,213,190	1,745,000	1,667,724	3,412,724
2010-2014	29,825,000	5,101,033	34,926,033	9,715,000	6,970,492	16,685,492
2015-2019	9,155,000	710,094	9,865,094	11,330,000	4,302,153	15,632,153
2020-2024	-	-	-	7,925,000	1,699,275	9,624,275
2025-2028	-	-	-	2,300,000	129,250	2,429,250
Total	<u>\$ 71,171,000</u>	<u>\$ 18,279,916</u>	<u>\$ 89,450,916</u>	<u>\$ 41,535,000</u>	<u>\$ 22,671,698</u>	<u>\$ 64,206,698</u>

During the year, the City issued \$2,330,000 of Special Assessment Limited Tax Bonds, Series 2003 to provide funds for sanitary sewer improvements in new residential developments. These bonds will be repaid from amounts levied against the property owners benefited by this construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City must provide resources to cover the deficiency until other resources are received. The bonds have an average interest rate of 2.89 percent and are payable in installments of principal over the next 14 years.

The City also refunded \$6,200,000 of General Obligation Unlimited Tax Road Bonds, Series 1998 with an average interest rate of 4.40 percent. These bonds were refunded through the issuance of \$6,565,000 of General Obligation Unlimited Tax Bonds with an average interest rate of 2.72 percent. The net proceeds of \$6,484,682 (after payment of \$132,568 in underwriter's fees and issuance costs and considering a premium of \$52,250) were used to purchase government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the statement of net assets. The City realized an economic gain of \$186,728 as a result of the refunding.

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for employee medical benefit claims and is covered by the Municipal Insurance Alliance for property and casualty claims, and for vehicle and contractor equipment physical damage. The City participates in the Michigan Municipal League (MML) risk pool for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The City was a member of the Michigan Municipal Risk Management Authority, which is a self-insurance program for general and auto liability, auto physical damage, and property loss claims, through June 30, 1994. From July 1, 1994 through June 30, 2003, the City participated in the Michigan Municipal League (MML) risk pool for claims relating to property loss, torts, errors and omissions, and workers' compensation. This risk pool operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The City estimates the liability for general liability claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. This includes estimated liabilities of the Michigan Municipal Risk Management Authority program through June 30, 1994, estimated liabilities of the Michigan Municipal League program from July 1, 1994 through June 30, 2003, and estimated deductible payments related to the Municipal Insurance Alliance for claims subsequent to July 1, 2003.

Changes in the estimated liability for the past two fiscal years were as follows:

	2004	2003
Estimated liability - Beginning of year	\$ 592,180	\$ 5,477,100
Estimated claims incurred, including changes in estimates	293,694	1,469,582
Claim payments	(363,574)	(6,354,502)
Estimated liability - End of year	<u>\$ 522,300</u>	<u>\$ 592,180</u>

City of Novi, Michigan

Notes to Financial Statements June 30, 2004

Note 10 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Surplus at July 1, 2003	\$ 4,910
Current year building permit revenue	1,712,548
Related expenses:	
Direct costs	\$ 1,536,732
Estimated indirect costs	<u>215,794</u>
Total construction code expenses	<u>1,752,526</u>
Cumulative shortfall at June 30, 2004	<u><u>\$ (35,068)</u></u>

Note 11 - Designated Fund Balances

The fund balances of the General Fund and Special Revenue Funds have been designated for the following purposes:

	General Fund	Municipal Street Fund	Nonmajor Governmental Funds
Subsequent years' budgeted expenditures	\$ 177,882	\$ 740,595	\$ 2,793,457
Building reserve	-	-	100,000
Meadowbrook Lake and Village Oaks Lake	-	-	<u>1,335,000</u>
Total designated fund balances	<u>\$ 177,882</u>	<u>\$ 740,595</u>	<u>\$ 4,228,457</u>

Note 12 - Defined Benefit Pension Plan and Postretirement Benefits

Plan Description

The City participates in the Michigan Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers all full-time employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 447 N. Canal St., Lansing, Michigan 48917-9755.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and requires contributions of 2 percent to 6.44 percent from approximately 50 percent of the covered or eligible employees.

Annual Pension Cost

For the year ended June 30, 2004, the City's annual pension cost of \$1,561,235 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent to 8.66 percent per year, and (c) cost of living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over 30 years. The amortization period is open.

City of Novi, Michigan

Notes to Financial Statements June 30, 2004

Note 12 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

Three-year Trend Information

	Fiscal Year Ended June 30		
	2002	2003	2004
Annual pension cost (APC)	\$ 1,476,122	\$ 1,402,816	\$ 1,561,235
Percentage of APC contributed	100%	100%	100%
Net pension obligation	None	None	None
	2001	2002	2003
Actuarial value of assets	\$ 25,481,642	\$ 27,004,202	\$ 29,711,414
Actuarial accrued liability (AAL)			
(entry age normal cost method)	\$ 34,214,528	\$ 37,047,372	\$ 40,290,596
Unfunded AAL (UAAL)	\$ 8,732,886	\$ 10,043,170	\$ 10,579,182
Funded ratio	74%	73%	74%
Covered payroll	\$ 12,599,780	\$ 13,200,553	\$ 14,299,462
UAAL as a percentage of covered payroll	69%	76%	74%

Note 13 - Joint Venture

The City participates in the Southwest Oakland Cable Commission with the cities of Farmington and Farmington Hills. The City appoints two members to the governing board of the Cable Commission, which then approves the annual budget. The Cable Commission receives 5 percent of the total cable television charges from the cable television company as franchise fees and currently does not receive a subsidy from the City. Financial information of the joint venture as of June 30, 2004 can be obtained from the administrative offices at 24021 Research Drive, Farmington Hills, Michigan.

In addition, the City is a member of the Resource Recovery and Recycling Authority of Southwest Oakland County. The Authority is incorporated by the Cities of Farmington, Farmington Hills, Novi, South Lyon, Southfield, Walled Lake, Wixom, and the Charter Township of South Lyon. The City appoints one member to the joint venture's governing board, which then approves the annual budget. The joint venture receives its operating revenue from member contributions and miscellaneous income. The financial information of the joint venture as of June 30, 2004 can be obtained from the Authority's administrative offices at 20000 West 8 Mile Road, Southfield, Michigan.

Note 13 - Joint Venture (Continued)

For both joint ventures, the City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Note 14 - Retiree Health Care Benefits Expendable Trust

The City provides health care benefits to most full-time employees upon retirement, in accordance with labor contracts. Currently, 37 retirees are eligible and 31 are receiving benefits. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with contributions required by the participant for 20 percent of annual premiums for most retirees. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for retiree health care benefits are recognized as the insurance premiums become due. For individuals retired before June 30, 1994, premiums are paid by the General Fund. During the year, this amounted to approximately \$52,000. For individuals retiring after June 30, 1994, payments for premiums are recorded in the Retiree Health Care Benefits Pension and Other Employee Benefit Trust Fund. During the year, this amounted to approximately \$150,000.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2007.

Required Supplemental Information

City of Novi, Michigan

Required Supplemental Information Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) General Fund Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Amended Budget
<u>Revenues</u>				
Taxes				
Current property taxes	\$ 11,940,000	\$ 11,940,000	\$ 12,049,318	\$ 109,318
Trailer fees	11,000	11,000	10,199	(801)
Penalty and interest	175,000	175,000	175,349	349
Total taxes	12,126,000	12,126,000	12,234,866	108,866
Licenses, Permits, and Charges for Services	2,632,000	2,872,000	3,067,750	195,750
Intergovernmental Revenues				
State-shared revenues	4,013,881	3,808,881	3,812,543	3,662
Federal grants	37,000	119,000	126,041	7,041
Police training grant	12,500	14,500	21,249	6,749
Total intergovernmental revenues	4,063,381	3,942,381	3,959,833	17,452
Fines and Forfeitures	255,000	310,000	363,589	53,589
Interest Income	350,000	330,000	351,548	21,548
Other Revenues	358,000	553,000	597,067	44,067
Transfers In	3,285,000	3,285,000	3,207,527	(77,473)
Total revenues	23,069,381	23,418,381	23,782,180	363,799
<u>Expenditures</u>				
City Council				
Personal services	8,600	8,600	4,115	4,485
Other services and charges	1,100	1,100	402	698
Total City Council	9,700	9,700	4,517	5,183
City Manager				
Personal services	507,443	535,383	532,180	3,203
Supplies	1,200	1,200	1,120	80
Other services and charges	5,000	5,900	5,567	333
Total City Manager	513,643	542,483	538,867	3,616
Finance				
Personal services	556,006	584,961	563,415	21,546
Other services and charges	98,660	98,660	75,199	23,461
Total finance	654,666	683,621	638,614	45,007

City of Novi, Michigan

Required Supplemental Information Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) General Fund (Continued) Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Amended Budget
Expenditures (Continued)				
Information Technology				
Personal services	\$ 219,593	\$ 233,383	\$ 225,652	\$ 7,731
Supplies	41,100	37,100	34,480	2,620
Other services and charges	77,965	88,965	87,011	1,954
Total information technology	338,658	359,448	347,143	12,305
Assessing				
Personal services	513,256	520,451	490,061	30,390
Supplies	3,000	3,000	679	2,321
Other services and charges	113,000	163,000	120,216	42,784
Total assessing	629,256	686,451	610,956	75,495
City Attorney	400,000	558,500	548,850	9,650
City Clerk				
Personal services	460,474	472,794	406,124	66,670
Supplies	17,000	17,000	13,901	3,099
Other services and charges	23,200	31,500	26,769	4,731
Total city clerk	500,674	521,294	446,794	74,500
Treasury				
Personal services	200,036	214,206	211,529	2,677
Supplies	16,705	23,705	17,838	5,867
Other services and charges	48,640	48,640	42,951	5,689
Total treasury	265,381	286,551	272,318	14,233
Building and Grounds				
Personal services	183,301	204,801	202,748	2,053
Supplies	7,500	8,500	8,706	(206)
Other services and charges	535,400	535,400	411,520	123,880
Debt service	34,912	34,912	34,912	-
Capital outlay	-	232,000	199,813	32,187
Total building and grounds	761,113	1,015,613	857,699	157,914
Community Relations				
Personal services	129,989	134,594	133,585	1,009
Supplies	4,450	4,450	4,107	343
Other services and charges	141,200	142,000	116,843	25,157
Total community relations	275,639	281,044	254,535	26,509

City of Novi, Michigan

Required Supplemental Information Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) General Fund (Continued) Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Amended Budget
Expenditures (Continued)				
General Administration				
Personal services	\$ 626,783	\$ 680,518	\$ 645,440	\$ 35,078
Supplies	82,650	119,650	112,096	7,554
Other services and charges	908,950	787,550	711,829	75,721
Capital outlay	-	25,900	25,820	80
Total general administration	1,618,383	1,613,618	1,495,185	118,433
Police Department				
Personal services	8,078,274	8,203,504	8,039,202	164,302
Supplies	179,235	226,235	203,166	23,069
Other services and charges	736,596	816,196	770,935	45,261
Capital outlay	-	18,000	7,459	10,541
Total police department	8,994,105	9,263,935	9,020,762	243,173
Fire Department				
Personal services	3,112,553	3,183,453	3,101,535	81,918
Supplies	82,200	117,200	96,138	21,062
Other services and charges	212,250	218,250	196,553	21,697
Capital outlay	-	84,665	58,524	26,141
Total fire department	3,407,003	3,603,568	3,452,750	150,818
Building Department				
Personal services	1,397,088	1,494,003	1,417,490	76,513
Supplies	30,200	35,200	29,819	5,381
Other services and charges	78,240	97,640	89,424	8,216
Total building department	1,505,528	1,626,843	1,536,733	90,110
Neighborhood Services				
Personal services	372,011	379,391	376,941	2,450
Supplies	3,750	10,950	9,624	1,326
Other services and charges	14,835	27,535	25,003	2,532
Total neighborhood services	390,596	417,876	411,568	6,308
Department of Public Works				
Personal services	1,974,498	2,025,543	2,010,925	14,618
Supplies	112,700	117,700	104,505	13,195
Other services and charges	545,400	600,000	490,124	109,876
Capital outlay	30,000	193,950	191,574	2,376
Allocated to other operations	(1,702,000)	(1,702,000)	(1,765,453)	63,453
Total Department of Public Works	960,598	1,235,193	1,031,675	203,518

City of Novi, Michigan

Required Supplemental Information Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) General Fund (Continued) Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Amended Budget
<u>Expenditures</u> (Continued)				
Engineering				
Personal services	\$ 338,994	\$ 356,694	\$ 349,113	\$ 7,581
Supplies	4,500	4,500	2,569	1,931
Other services and charges	10,400	18,100	13,761	4,339
Allocated to other operations	(100,000)	(140,000)	(163,070)	23,070
Total engineering	253,894	239,294	202,373	36,921
Planning Commission				
Supplies	365	365	357	8
Other services and charges	77,426	87,426	26,355	61,071
Total planning commission	77,791	87,791	26,712	61,079
Planning				
Personal services	573,942	595,167	593,326	1,841
Supplies	10,765	10,765	9,168	1,597
Other services and charges	176,400	180,400	73,199	107,201
Total planning	761,107	786,332	675,693	110,639
Contingencies	284,500	-	-	-
Transfers Out	1,364,000	1,567,400	1,568,175	(775)
Total expenditures	23,966,235	25,386,555	23,941,919	1,444,636
Net Change in Fund Balance	(896,854)	(1,968,174)	(159,739)	1,808,435
Fund Balance - Beginning of year	5,293,046	5,293,046	5,293,046	-
Fund Balance - End of year	<u>\$ 4,396,192</u>	<u>\$ 3,324,872</u>	<u>\$ 5,133,307</u>	<u>\$ 1,808,435</u>

City of Novi, Michigan

Required Supplemental Information Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) Municipal Street Fund Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 2,064,000	\$ 2,064,000	\$ 2,071,185	\$ 7,185
Federal sources	-	-	10,183	10,183
Interest income	991,000	991,000	1,127,092	136,092
Special assessments	877,500	877,500	1,007,875	130,375
Other	60,000	60,000	100,849	40,849
Total revenue	3,992,500	3,992,500	4,317,184	324,684
Expenditures				
Administration	5,000	5,000	1,650	3,350
Construction	405,000	2,820,400	2,211,147	609,253
Street maintenance	265,000	295,000	172,321	122,679
Debt service	1,982,275	1,982,275	1,978,175	4,100
Total expenditures	2,657,275	5,102,675	4,363,293	739,382
Net Change in Fund Balance	1,335,225	(1,110,175)	(46,109)	1,064,066
Fund Balance - Beginning of year	4,350,508	4,350,508	4,350,508	-
Fund Balance - End of year	<u>\$ 5,685,733</u>	<u>\$ 3,240,333</u>	<u>\$ 4,304,399</u>	<u>\$ 1,064,066</u>

Other Supplemental Information

City of Novi, Michigan

		Special Revenue Funds			
		Major	Local	Parks, Recreation, and Forestry	Police and Fire
		Street	Street		
Assets					
Cash and investments	\$	2,058,102	\$ 938,374	\$ 723,031	\$ 1,312,859
Accounts receivable:					
Other governmental units		374,341	129,024	16,664	-
Taxes		-	-	30,659	113,502
Special assessments		886,666	-	-	-
Other		-	-	-	-
Restricted assets		1,120,620	267,085	-	-
Total assets		<u>\$ 4,439,729</u>	<u>\$ 1,334,483</u>	<u>\$ 770,354</u>	<u>\$ 1,426,361</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$	227,170	\$ 140,535	\$ 99,399	\$ 16,133
Accrued and other liabilities		-	-	122,372	-
Due to other funds		-	-	-	-
Deferred revenue		886,666	-	117,142	-
Total liabilities		1,113,836	140,535	338,913	16,133
Fund Balances					
Reserved - Restricted assets		1,120,620	267,085	-	-
Unreserved:					
Designated		971,626	594,194	-	7,000
Undesignated		1,233,647	332,669	431,441	1,403,228
Total fund balances		3,325,893	1,193,948	431,441	1,410,228
Total liabilities and fund balances		<u>\$ 4,439,729</u>	<u>\$ 1,334,483</u>	<u>\$ 770,354</u>	<u>\$ 1,426,361</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004**

Special Revenue Funds						
Library	Drain Revenue	Drain Perpetual Maintenance	Judgment Trust	Contributions and Donations	Walker Building Fund	Special Assessment Revolving
\$ 450,233	\$ 3,759,362	\$ 4,606,842	\$ 141,082	\$ -	\$ -	\$ 1,967,937
-	28,760	-	-	-	-	-
61,343	47,287	-	-	-	-	-
-	13,726	-	-	-	-	-
-	-	-	463	-	-	-
-	1,104,072	-	-	129,402	1,003,418	-
\$ 511,576	\$ 4,953,207	\$ 4,606,842	\$ 141,545	\$ 129,402	\$ 1,003,418	\$ 1,967,937
\$ 74,752	\$ 156,353	\$ -	\$ 68,570	\$ 17,360	\$ -	\$ -
38,297	-	-	-	-	-	-
-	-	-	-	-	-	-
-	13,726	-	-	-	-	-
113,049	170,079	-	68,570	17,360	-	-
-	1,104,072	-	-	112,042	1,003,418	-
100,000	2,555,037	-	-	-	-	600
298,527	1,124,019	4,606,842	72,975	-	-	1,967,337
398,527	4,783,128	4,606,842	72,975	112,042	1,003,418	1,967,937
\$ 511,576	\$ 4,953,207	\$ 4,606,842	\$ 141,545	\$ 129,402	\$ 1,003,418	\$ 1,967,937

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City of Novi, Michigan

	Debt Service Funds			
	1997 Voted Street	2000 Voted Street	2002 Michigan Transportation Fund Refunding Debt	2002 Street and Refunding Debt
Assets				
Cash and investments	\$ 92,553	\$ 16,959	\$ -	\$ 22,697
Accounts receivable:				
Other governmental units	-	-	-	-
Taxes	45,857	18,488	-	46,694
Special assessments	-	-	-	-
Other	-	-	-	-
Restricted assets	-	-	-	-
Total assets	<u>\$ 138,410</u>	<u>\$ 35,447</u>	<u>\$ -</u>	<u>\$ 69,391</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued and other liabilities	-	-	-	-
Due to other funds	-	-	-	-
Deferred revenue	-	-	-	-
Total liabilities	-	-	-	-
Fund Balances				
Reserved - Restricted assets	-	-	-	-
Unreserved:				
Designated	-	-	-	-
Undesignated	138,410	35,447	-	69,391
Total fund balances	138,410	35,447	-	69,391
Total liabilities and fund balances	<u>\$ 138,410</u>	<u>\$ 35,447</u>	<u>\$ -</u>	<u>\$ 69,391</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds (Continued)
June 30, 2004**

Debt Service Funds					
1997 Fire Debt	1993 Refunding Debt Fund	2000 Limited Tax Debt Fund	1999 Police Debt Fund	2003 Refunding Debt Fund	Special Assessments
\$ 2,785	\$ 47,108	\$ -	\$ 401,978	\$ 30,732	\$ 598,076
-	-	-	-	-	-
6,110	35,074	-	7,093	-	-
-	-	-	-	-	11,412
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 8,895</u>	<u>\$ 82,182</u>	<u>\$ -</u>	<u>\$ 409,071</u>	<u>\$ 30,732</u>	<u>\$ 609,488</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	11,412
-	-	-	-	-	11,412
-	-	-	-	-	-
-	-	-	-	-	-
8,895	82,182	-	409,071	30,732	598,076
8,895	82,182	-	409,071	30,732	598,076
<u>\$ 8,895</u>	<u>\$ 82,182</u>	<u>\$ -</u>	<u>\$ 409,071</u>	<u>\$ 30,732</u>	<u>\$ 609,488</u>

(Continued on next page)

City of Novi, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds (Continued) June 30, 2004

	Capital Projects Funds			
	Capital Improvement	1999 Police Building Construction	1997 Fire Capital Improvement	Total Nonmajor Governmental Funds
Assets				
Cash and investments	\$ 38,105	\$ 473,830	\$ 43,914	\$ 17,726,559
Accounts receivable:				
Other governmental units	-	-	-	548,789
Taxes	-	-	-	412,107
Special assessments	-	-	-	911,804
Other	-	-	61,297	61,760
Restricted assets	-	-	-	3,624,597
Total assets	<u>\$ 38,105</u>	<u>\$ 473,830</u>	<u>\$ 105,211</u>	<u>\$ 23,285,616</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 38,105	\$ -	\$ 45,608	\$ 883,985
Accrued and other liabilities	-	-	-	160,669
Due to other funds	-	-	13,892	13,892
Deferred revenue	-	-	-	1,028,946
Total liabilities	38,105	-	59,500	2,087,492
Fund Balances				
Reserved - Restricted assets	-	-	-	3,607,237
Unreserved:				
Designated	-	-	-	4,228,457
Undesignated	-	473,830	45,711	13,362,430
Total fund balances	-	473,830	45,711	21,198,124
Total liabilities and fund balances	<u>\$ 38,105</u>	<u>\$ 473,830</u>	<u>\$ 105,211</u>	<u>\$ 23,285,616</u>

City of Novi, Michigan

	Special Revenue Funds			
	Major Street	Local Street	Parks, Recreation, and Forestry	Police and Fire
Revenue				
Property taxes	\$ -	\$ -	\$ 1,034,107	\$ 3,828,836
Federal grants	-	-	111,769	-
State sources	2,204,600	759,183	21,153	-
Special assessments	126,667	-	-	-
Fines and forfeitures	-	-	-	-
Investment income	120,652	14,385	6,087	23,950
Recreational programs	-	-	771,552	-
Donations	-	-	-	-
Other revenue	17,033	-	109,858	-
Total revenue	2,468,952	773,568	2,054,526	3,852,786
Expenditures				
Administration	500	500	-	-
Construction	1,452,059	516,713	-	-
Street maintenance	1,163,394	846,755	-	-
Drain maintenance	-	-	-	-
Recreational programs	-	-	1,697,907	-
Forestry and park maintenance	-	-	898,072	-
Library programs	-	-	-	-
Other	-	-	-	-
Capital outlay	-	-	38,077	-
Debt service	215,129	-	-	-
Total expenditures	2,831,082	1,363,968	2,634,056	-
Excess of Revenue Over (Under)				
Expenditures	(362,130)	(590,400)	(579,530)	3,852,786
Other Financing Sources (Uses)				
Bond proceeds	-	-	-	-
Payment to escrow agent	-	-	-	-
Transfers in	-	560,921	645,000	-
Transfers out	(686,487)	-	(110,760)	(3,207,527)
Total other financing sources (uses)	(686,487)	560,921	534,240	(3,207,527)
Net Change in Fund Balances	(1,048,617)	(29,479)	(45,290)	645,259
Fund Balances - Beginning of year	4,374,510	1,223,427	476,731	764,969
Fund Balances - End of year	<u>\$ 3,325,893</u>	<u>\$ 1,193,948</u>	<u>\$ 431,441</u>	<u>\$ 1,410,228</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2004

Special Revenue Funds						
Library	Drain Revenue	Drain Perpetual Maintenance	Judgment Trust	Contributions and Donations	Walker Building Fund	Special Assessment Revolving
\$ 2,077,099	\$ 1,598,142	\$ -	\$ -	\$ -	\$ -	\$ -
-	52,073	-	-	-	-	-
26,916	34,972	-	-	-	-	-
-	2,745	-	-	-	-	-
105,479	-	-	-	-	-	-
12,666	57,840	145,940	1,316	1,182	-	47,679
-	-	-	-	-	-	-
-	-	-	-	3,017	1,004,990	-
39,378	-	83,293	-	-	-	-
2,261,538	1,745,772	229,233	1,316	4,199	1,004,990	47,679
-	926	-	-	-	-	-
-	560,736	-	-	-	-	-
-	-	-	-	-	-	-
-	407,066	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
2,167,782	-	-	-	-	-	-
-	-	-	324,527	2,917	1,572	500
64,048	-	-	-	-	-	-
-	-	-	-	-	-	-
2,231,830	968,728	-	324,527	2,917	1,572	500
29,708	777,044	229,233	(323,211)	1,282	1,003,418	47,179
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	387,000	110,760	-	-
-	-	-	-	-	-	-
-	-	-	387,000	110,760	-	-
29,708	777,044	229,233	63,789	112,042	1,003,418	47,179
368,819	4,006,084	4,377,609	9,186	-	-	1,920,758
\$ 398,527	\$ 4,783,128	\$ 4,606,842	\$ 72,975	\$ 112,042	\$ 1,003,418	\$ 1,967,937

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City of Novi, Michigan

	Debt Service Funds			
	1997 Voted	2000 Voted	2002 Michigan Transportation Fund Refunding Debt	2002 Street and Refunding Debt
	Street	Street		
Revenue				
Property taxes	\$ 1,340,928	\$ 708,386	\$ -	\$ 2,107,640
Federal grants	-	-	-	-
State sources	-	-	-	-
Special assessments	-	-	-	-
Fines and forfeitures	-	-	-	-
Investment income	1,725	1,635	-	4,441
Recreational programs	-	-	-	-
Donations	-	-	-	-
Other revenue	-	-	-	-
Total revenue	1,342,653	710,021	-	2,112,081
Expenditures				
Administration	-	-	-	-
Construction	-	-	-	-
Street maintenance	-	-	-	-
Drain maintenance	-	-	-	-
Recreational programs	-	-	-	-
Forestry and park maintenance	-	-	-	-
Library programs	-	-	-	-
Other	-	-	-	-
Capital outlay	-	-	-	-
Debt service	1,250,056	702,950	125,566	2,214,394
Total expenditures	1,250,056	702,950	125,566	2,214,394
Excess of Revenue Over (Under)				
Expenditures	92,597	7,071	(125,566)	(102,313)
Other Financing Sources (Uses)				
Bond proceeds	-	-	-	-
Payment to escrow agent	-	-	-	-
Transfers in	-	-	125,566	-
Transfers out	(29,831)	-	-	-
Total other financing sources (uses)	(29,831)	-	125,566	-
Net Change in Fund Balances	62,766	7,071	-	(102,313)
Fund Balances - Beginning of year	75,644	28,376	-	171,704
Fund Balances - End of year	\$ 138,410	\$ 35,447	\$ -	\$ 69,391

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds (Continued)
Year Ended June 30, 2004

Debt Service Funds					
1997 Fire Debt	1993 Refunding Debt Fund	2000 Limited Tax Debt Fund	1999 Police Debt Fund	2003 Refunding Debt Fund	Special Assessments
\$ 155,298	\$ 1,164,514	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
138	1,934	-	2,607	263	5,923
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
155,436	1,166,448	-	2,607	263	5,923
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	500	-	-	-
-	-	-	-	-	-
162,070	1,148,758	235,675	251,020	80,318	-
162,070	1,148,758	236,175	251,020	80,318	-
(6,634)	17,690	(236,175)	(248,413)	(80,055)	5,923
-	-	-	-	6,565,000	-
-	-	-	-	(6,484,044)	-
-	-	236,175	646,621	29,831	-
-	-	-	-	-	-
-	-	236,175	646,621	110,787	-
(6,634)	17,690	-	398,208	30,732	5,923
15,529	64,492	-	10,863	-	592,153
<u>\$ 8,895</u>	<u>\$ 82,182</u>	<u>\$ -</u>	<u>\$ 409,071</u>	<u>\$ 30,732</u>	<u>\$ 598,076</u>

(Continued on next page)

City of Novi, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2004

	Capital Projects Funds			
	Capital Improvement	1999 Police Building Construction	1997 Fire Capital Improvement	Total Nonmajor Governmental Funds
Revenue				
Property taxes	\$ -	\$ -	\$ -	\$ 14,014,950
Federal grants	-	-	-	163,842
State sources	-	-	-	3,046,824
Special assessments	-	-	-	129,412
Fines and forfeitures	-	-	-	105,479
Investment income	2,068	6,152	427	459,010
Recreation programs	-	-	-	771,552
Donations	-	-	-	1,008,007
Other revenue	-	-	54,297	303,859
Total revenue	2,068	6,152	54,724	20,002,935
Expenditures				
Administration	-	-	-	1,926
Construction	-	79,522	197,874	2,806,904
Street maintenance	-	-	-	2,010,149
Drain maintenance	-	-	-	407,066
Recreational programs	-	-	-	1,697,907
Forestry and park maintenance	-	-	-	898,072
Library programs	-	-	-	2,167,782
Other	620	-	-	330,636
Capital outlay	445,929	-	-	548,054
Debt service	-	-	-	6,385,936
Total expenditures	446,549	79,522	197,874	17,254,432
Excess of Revenue Over (Under)				
Expenditures	(444,481)	(73,370)	(143,150)	2,748,503
Other Financing Sources (Uses)				
Bond proceeds	-	-	-	6,565,000
Payment to escrow agent	-	-	-	(6,484,044)
Transfers in	300,000	-	-	3,041,874
Transfers out	-	(646,621)	-	(4,681,226)
Total other financing sources (uses)	300,000	(646,621)	-	(1,558,396)
Net Change in Fund Balances	(144,481)	(719,991)	(143,150)	1,190,107
Fund Balances - Beginning of year	144,481	1,193,821	188,861	20,008,017
Fund Balances - End of year	\$ -	\$ 473,830	\$ 45,711	\$ 21,198,124

City of Novi, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds Year Ended June 30, 2004

Special Revenue - Major Street

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
State sources	\$ 1,585,000	\$ 1,635,000	\$ 2,204,600	\$ 569,600
Special assessments	105,000	105,000	126,667	21,667
Investment income	90,000	177,000	120,652	(56,348)
Other	-	-	17,033	17,033
Total revenues	1,780,000	1,917,000	2,468,952	551,952
Expenditures				
Administration	5,000	5,000	500	4,500
Construction	2,037,000	3,914,000	1,452,059	2,461,941
Street maintenance	1,050,000	1,182,000	1,163,394	18,606
Transfers out	520,850	697,550	686,487	11,063
Debt service	215,275	215,275	215,129	146
Total expenditures	3,828,125	6,013,825	3,517,569	2,496,256
Net Change in Fund Balance	(2,048,125)	(4,096,825)	(1,048,617)	3,048,208
Fund Balance - Beginning of year	4,374,510	4,374,510	4,374,510	-
Fund Balance - End of year	<u>\$ 2,326,385</u>	<u>\$ 277,685</u>	<u>\$ 3,325,893</u>	<u>\$ 3,048,208</u>

City of Novi, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2004

Special Revenue - Local Street

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
State sources	\$ 572,400	\$ 572,400	\$ 759,183	\$ 186,783
Investment income	8,000	8,000	14,385	6,385
Transfers in	446,250	522,950	560,921	37,971
Total revenues	1,026,650	1,103,350	1,334,489	231,139
Expenditures				
Administration	5,000	5,000	500	4,500
Construction	500,000	525,000	516,713	8,287
Street maintenance	925,000	1,000,000	846,755	153,245
Total expenditures	1,430,000	1,530,000	1,363,968	166,032
Net Change in Fund Balance	(403,350)	(426,650)	(29,479)	397,171
Fund Balance - Beginning of year	1,223,427	1,223,427	1,223,427	-
Fund Balance - End of year	<u>\$ 820,077</u>	<u>\$ 796,777</u>	<u>\$ 1,193,948</u>	<u>\$ 397,171</u>

City of Novi, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2004

Special Revenue - Parks, Recreation, and Forestry

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Property taxes	\$ 1,031,000	\$ 1,031,000	\$ 1,034,107	\$ 3,107
Federal grants	109,749	109,749	111,769	2,020
State sources	-	-	21,153	21,153
Investment income	4,000	4,000	6,087	2,087
Recreation programs	892,625	837,625	771,552	(66,073)
Transfers in	506,600	645,000	645,000	-
Gift	1,000	1,000	-	(1,000)
Other	52,000	145,000	109,858	(35,142)
Total revenues	2,596,974	2,773,374	2,699,526	(73,848)
Expenditures				
Capital outlay	-	23,200	38,077	(14,877)
Recreational programs	1,749,196	1,858,061	1,697,907	160,154
Forestry and park maintenance	849,775	974,975	898,072	76,903
Transfers out	-	-	110,760	(110,760)
Total expenditures	2,598,971	2,856,236	2,744,816	111,420
Net Change in Fund Balance	(1,997)	(82,862)	(45,290)	37,572
Fund Balance - Beginning of year	476,731	476,731	476,731	-
Fund Balance - End of year	<u>\$ 474,734</u>	<u>\$ 393,869</u>	<u>\$ 431,441</u>	<u>\$ 37,572</u>

City of Novi, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2004

Special Revenue - Police and Fire

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Taxes	\$ 3,819,000	\$ 3,819,000	\$ 3,828,836	\$ 9,836
Investment income	7,500	7,500	23,950	16,450
Total revenues	3,826,500	3,826,500	3,852,786	26,286
Expenditures - Transfers out	3,285,000	3,285,000	3,207,527	77,473
Net Change in Fund Balance	541,500	541,500	645,259	103,759
Fund Balance - Beginning of year	764,969	764,969	764,969	-
Fund Balance - End of year	<u>\$ 1,306,469</u>	<u>\$ 1,306,469</u>	<u>\$ 1,410,228</u>	<u>\$ 103,759</u>

City of Novi, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2004

Special Revenue - Library

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Taxes	\$ 2,071,400	\$ 2,071,400	\$ 2,077,099	\$ 5,699
State sources	34,200	26,700	26,916	216
Fines and forfeitures	86,000	96,000	105,479	9,479
Investment income	15,000	12,500	12,666	166
Other	33,000	33,000	39,378	6,378
Total revenues	2,239,600	2,239,600	2,261,538	21,938
Expenditures				
Library programs	2,246,634	2,266,734	2,167,782	98,952
Capital outlay	75,000	102,225	64,048	38,177
Total expenditures	2,321,634	2,368,959	2,231,830	137,129
Net Change in Fund Balance	(82,034)	(129,359)	29,708	159,067
Fund Balance - Beginning of year	368,819	368,819	368,819	-
Fund Balance - End of year	<u>\$ 286,785</u>	<u>\$ 239,460</u>	<u>\$ 398,527</u>	<u>\$ 159,067</u>

City of Novi, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2004

Special Revenue - Drain Revenue

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Taxes	\$ 1,594,000	\$ 1,594,000	\$ 1,598,142	\$ 4,142
Federal grants	232,032	507,032	52,073	(454,959)
State sources	-	-	34,972	34,972
Special assessments	-	-	2,745	2,745
Investment income	35,000	35,000	57,840	22,840
Total revenues	1,861,032	2,136,032	1,745,772	(390,260)
Expenditures				
Administration	-	-	926	(926)
Construction	1,524,700	3,662,050	560,736	3,101,314
Street maintenance	575,000	575,000	407,066	167,934
Total expenditures	2,099,700	4,237,050	968,728	3,268,322
Net Change in Fund Balance	(238,668)	(2,101,018)	777,044	2,878,062
Fund Balance - Beginning of year	4,006,084	4,006,084	4,006,084	-
Fund Balance - End of year	<u>\$ 3,767,416</u>	<u>\$ 1,905,066</u>	<u>\$ 4,783,128</u>	<u>\$ 2,878,062</u>

Special Revenue - Drain Perpetual Maintenance

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Investment income	\$ 90,000	\$ 90,000	\$ 145,940	\$ 55,940
Other	-	-	83,293	83,293
Total revenues	90,000	90,000	229,233	139,233
Fund Balance - Beginning of year	4,377,609	4,377,609	4,377,609	-
Fund Balance - End of year	<u>\$ 4,467,609</u>	<u>\$ 4,467,609</u>	<u>\$ 4,606,842</u>	<u>\$ 139,233</u>

City of Novi, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2004

Special Revenue - Judgment Trust

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Investment income	\$ 2,000	\$ 2,000	\$ 1,316	\$ (684)
Transfers in	322,000	387,000	387,000	-
Total revenues	324,000	389,000	388,316	(684)
Expenditures - Other	322,000	387,000	324,527	62,473
Net Change in Fund Balance	2,000	2,000	63,789	61,789
Fund Balance - Beginning of year	9,186	9,186	9,186	-
Fund Balance - End of year	<u>\$ 11,186</u>	<u>\$ 11,186</u>	<u>\$ 72,975</u>	<u>\$ 61,789</u>

Special Revenue - Walker Building Fund

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues - Donations	\$ -	\$ -	\$ 1,004,990	\$ 1,004,990
Expenditures	-	-	1,572	(1,572)
Net Change in Fund Balance	-	-	1,003,418	1,003,418
Fund Balance - Beginning of year	-	-	-	-
Fund Balance - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,003,418</u>	<u>\$ 1,003,418</u>

City of Novi, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2004

Special Revenue - Special Assessment Revolving

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues - Investment income	\$ 30,000	\$ 30,000	\$ 47,679	\$ 17,679
Expenditures - Other	600	600	500	100
Net Change in Fund Balance	29,400	29,400	47,179	17,779
Fund Balance - Beginning of year	1,920,758	1,920,758	1,920,758	-
Fund Balance - End of year	<u>\$ 1,950,158</u>	<u>\$ 1,950,158</u>	<u>\$ 1,967,937</u>	<u>\$ 17,779</u>

City of Novi, Michigan

Other Supplemental Information Agency Fund Statement of Changes in Assets and Liabilities June 30, 2004

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
<u>Agency Fund</u>				
Assets - Cash and cash equivalents	<u>\$ 9,366,033</u>	<u>\$ 116,458,099</u>	<u>\$ (114,641,333)</u>	<u>\$ 11,182,799</u>
Liabilities				
Due to other funds	\$ -	\$ 3,949,681	\$ (3,949,681)	\$ -
Due to builders and developers	9,341,034	6,379,868	(4,605,936)	11,114,966
Due to schools and other governmental units	<u>24,999</u>	<u>109,913,612</u>	<u>(109,870,778)</u>	<u>67,833</u>
Total liabilities	<u>\$ 9,366,033</u>	<u>\$ 120,243,161</u>	<u>\$ (118,426,395)</u>	<u>\$ 11,182,799</u>

City of Novi, Michigan

Capital Assets Used in the Operation of Governmental Funds Schedule of General Fixed Assets by Source June 30, 2004

Governmental Funds Capital Assets

Land	\$ 22,933,826
Infrastructure	116,258,039
Buildings	23,335,327
Machinery, equipment, and books	<u>12,322,622</u>

Total governmental funds capital assets	<u><u>\$ 174,849,814</u></u>
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Investment in General Fixed Assets

Federal revenue sharing	\$ 537,789
General Fund	19,474,637
Special Revenue Funds	80,568,176
Capital Projects Funds	<u>74,269,212</u>

Total investment in general fixed assets	<u><u>\$ 174,849,814</u></u>
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City of Novi, Michigan

Capital Assets Used in the Operation of Governmental Funds Schedule of General Fixed Assets by Function and Activity June 30, 2004

Function	Land	Infrastructure	Buildings	Machinery and Equipment	Total
General government	\$ 1,232,323	\$ -	\$ 3,301,218	\$ 1,292,333	\$ 5,825,874
Public safety - Police and fire	722,221	-	10,929,274	3,774,681	15,426,176
Public works	12,422,664	116,258,039	3,597,787	1,928,930	134,207,420
Recreation and culture	8,556,618	-	5,507,048	5,326,678	19,390,344
Total	<u>\$ 22,933,826</u>	<u>\$ 116,258,039</u>	<u>\$ 23,335,327</u>	<u>\$ 12,322,622</u>	<u>\$ 174,849,814</u>

City of Novi, Michigan

Capital Assets Used in the Operation of Governmental Funds Schedule of Changes in General Fixed Assets by Function and Activity June 30, 2004

Function	General Fixed Assets July 1, 2003	Additions	Deletions	General Fixed Assets June 30, 2004
General government	\$ 5,433,241	\$ 392,633	\$ -	\$ 5,825,874
Public safety - Police and fire	15,334,980	550,076	458,880	15,426,176
Public works	120,573,264	13,909,974	275,818	134,207,420
Recreation and culture	<u>18,639,935</u>	<u>750,409</u>	<u>-</u>	<u>19,390,344</u>
Total	<u>\$ 159,981,420</u>	<u>\$ 15,603,092</u>	<u>\$ 734,698</u>	<u>\$ 174,849,814</u>

Statistical Section

City of Novi, Michigan

Fiscal Year Ended June 30	Property Taxes	Licenses, Permits, and Charges for Services	Federal Grants	State Sources	Special Assessments
1995	\$ 13,915,900	\$ 1,560,091	\$ 73,677	\$ 4,276,229	\$ 751,787
1996	14,763,820	1,757,040	312,059	4,356,804	1,197,184
1997	16,047,885	1,999,357	577,535	4,959,641	857,660
1998	18,165,370	2,007,549	715,828	6,102,520	1,078,981
1999	19,539,386	1,938,503	697,584	5,717,719	653,367
2000	20,500,719	2,249,562	477,059	6,461,107	341,631
2001	22,119,501	2,472,503	460,404	6,622,204	668,661
2002	24,295,219	2,394,190	820,901	7,104,544	1,109,137
2003	26,579,364	2,710,259	554,498	7,012,000	1,096,950
2004	28,321,001	3,067,750	300,066	6,859,367	1,137,287

**General Government Revenues by Source
General, Special Revenue, and Debt Service Funds
Last Ten Fiscal Years**

Fines and Forfeitures	Interest Income	Recreation Programs	Other	Total
\$ 237,438	\$ 1,462,947	\$ 567,406	\$ 662,971	\$ 23,508,446
275,160	1,829,733	594,197	1,034,972	26,120,969
336,128	1,942,496	698,880	933,798	28,353,380
328,868	1,883,393	691,244	938,311	31,912,064
295,938	2,009,949	683,289	793,229	32,328,964
355,851	1,760,716	696,555	1,949,344	34,792,544
350,737	3,117,031	676,415	708,108	37,195,564
359,760	2,596,888	758,648	1,639,060	41,078,347
384,847	2,418,398	897,234	2,070,395	43,723,945
469,068	2,100,839	771,552	1,976,734	45,003,664

City of Novi, Michigan

Fiscal Year Ended June 30	General Government	Police and Fire	Planning and Building	Street Maintenance	Recreational Programs
1995	\$ 3,555,257	\$ 6,926,473	\$ 1,169,551	\$ 1,180,667	\$ 1,218,216
1996	3,598,380	7,628,648	1,314,833	1,204,969	1,286,444
1997	4,026,038	8,666,523	1,521,630	1,251,455	1,504,414
1998	4,535,814	8,829,481	1,503,742	1,392,594	1,609,127
1999	4,889,066	8,994,301	1,747,940	1,572,159	1,690,835
2000	5,141,271	9,368,829	1,614,238	1,645,265	1,777,934
2001	4,990,341	10,542,044	1,599,781	2,141,759	2,013,024
2002	5,679,800	11,036,958	2,062,633	2,228,811	2,121,361
2003	5,615,550	11,670,065	2,188,301	2,716,638	2,391,510
2004	6,186,515	12,473,512	2,239,138	2,589,536	2,595,979

**General Government Expenditures by Function
General, Special Revenue, and Debt Service Funds
Last Ten Fiscal Years**

	Library		Capital Outlay		Debt Service		Other		Total
\$	1,107,258	\$	2,109,153	\$	4,474,633	\$	890,252	\$	22,631,460
	1,201,175		5,851,612		4,577,463		834,255		27,497,779
	1,363,545		6,034,282		5,798,474		989,644		31,156,005
	1,485,746		3,890,899		6,049,166		1,060,819		30,357,388
	1,589,180		3,622,941		7,541,528		441,111		32,089,061
	1,696,761		3,648,999		6,085,741		958,565		31,937,603
	1,774,198		9,424,047		6,848,849		763,238		40,097,281
	1,879,807		10,669,922		7,150,369		1,643,920		44,473,581
	2,063,764		9,202,175		7,347,210		3,978,773		47,173,986
	2,167,782		4,842,780		8,399,023		1,773,259		43,267,524

City of Novi, Michigan

General Fund Balance Compared to Annual Expenditures Last Ten Fiscal Years

<u>Fiscal Year Ended June 30</u>	<u>Unreserved Fund Balance</u>	<u>Annual Expenditures</u>	<u>Unreserved Fund Balance as a Percentage of Expenditures</u>
1995	\$ 2,691,511	\$ 12,725,605	21.15
1996	2,733,119	13,333,557	20.50
1997	3,284,615	15,174,831	21.65
1998	3,748,548	16,024,538	23.39
1999	4,167,348	19,750,148	21.10
2000	2,581,745	20,800,541	12.41
2001	4,337,737	18,942,254	22.90
2002	4,651,976	21,405,614	21.73
2003	5,288,136	22,142,906	23.88
2004	5,133,307	23,941,919	21.44

City of Novi, Michigan

Property Tax Levy and Collections Last Ten Fiscal Years

Fiscal Year Ended June 30	Total Tax Levy	Current Collections	Percent of Levy Collected	Delinquent Collections	Total Tax Collections	Percent of Total Collections to Tax Levy
1995	\$ 14,168,909	\$ 13,529,648	95%	\$ 564,671	\$ 14,094,319	99.47%
1996	14,664,188	14,113,485	96%	519,006	14,632,491	99.78%
1997	16,146,708	15,292,294	95%	739,900	16,032,194	99.29%
1998	18,169,203	17,444,048	96%	608,640	18,052,688	99.36%
1999	19,333,400	18,845,437	97%	433,275	19,278,712	99.72%
2000	20,464,295	19,851,494	97%	519,156	20,370,650	99.54%
2001	22,009,796	21,436,690	97%	458,097	21,894,787	99.48%
2002	24,039,024	23,477,124	98%	427,871	23,904,995	99.44%
2003	26,462,386	25,442,497	96%	867,058	26,309,555	99.42%
2004	28,320,219	27,425,798	97%	816,969	28,242,767	99.73%

City of Novi, Michigan

Computation of Legal Debt Margin Year Ended June 30, 2004

Debt Limit - 2003 state equalized valuation	\$ 3,196,088,910
Debt limit (10 percent of state equalized valuation)	\$ 319,608,891
Debt Applicable to Debt Limit	
Gross direct debt	\$ 112,706,000
Less:	
Special assessment bonds	18,795,000
Michigan Transportation Fund bonds	2,015,000
Revenue bonds	<u>13,680,000</u>
Total amount of debt applicable to limit	<u>78,216,000</u>
Legal Debt Margin	\$ 241,392,891

City of Novi, Michigan

Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Governmental Expenditures Last Ten Fiscal Years

Fiscal Year Ended June 30	Debt Service Requirements			Total General Expenditures	Ratio of Principal to General Expenditures (Percent)
	Principal	Interest	Total		
1995	\$ 3,892,828	\$ 3,845,000	\$ 7,737,828	\$ 22,631,460	17.20
1996	3,855,225	3,244,100	7,099,325	27,497,779	14.02
1997	4,186,229	3,164,500	7,350,729	31,156,005	13.44
1998	4,886,005	4,069,300	8,955,305	30,357,388	16.09
1999 (1)	4,666,533	2,755,186	7,421,719	32,089,061	23.13
2000 (1)	3,321,305	2,620,544	5,941,849	31,937,603	18.60
2001 (1)	3,748,592	2,967,415	6,716,007	40,097,281	16.73
2002 (1)	3,488,000	3,710,798	7,198,798	44,473,581	16.19
2003 (1)	3,155,999	2,454,397	5,610,396	47,173,986	11.89
2004 (1)	3,639,835	2,704,101	6,343,936	43,267,524	14.66

(1) General obligation bonds reported in the Enterprise Funds and special assessment debt with government commitment have been excluded.

City of Novi, Michigan

Assessed and Estimated Actual Valuation of Taxable Property Last Ten Fiscal Years

Fiscal Year Ended June 30	Real Taxable Valuation	Personal Taxable Valuation	Total Valuation	Percent of True Value (1)
1995	\$ 1,245,765,600	\$ 118,047,200	\$ 1,363,812,800	50
1996	1,327,835,950	122,690,750	1,450,526,700	50
1997	1,410,589,900	128,281,450	1,538,871,350	50
1998	1,508,542,210	137,200,350	1,645,742,560	50
1999	1,645,832,235	151,348,400	1,797,180,635	50
2000	1,773,657,340	166,509,250	1,940,166,590	50
2001	1,924,979,920	170,023,300	2,095,003,220	50
2002	2,105,598,380	174,797,790	2,280,396,170	50
2003	2,322,103,870	188,177,870	2,510,281,740	50
2004	2,473,254,790	205,961,210	2,679,216,000	50

(1) In accordance with the 1970 State of Michigan Constitution, the assessed value is 50 percent of appraised or estimated value.

City of Novi, Michigan

Property Tax Levies Last Ten Fiscal Years

Fiscal Year Ended June 30	State Education	School Tax (1)	City Tax	County Tax	Community Colleges (2)	Total
1995	\$ 8,129,286	\$ 23,649,312	\$ 14,168,909	\$ 6,721,738	\$ 1,394,152	\$ 54,063,397
1996	8,654,486	26,329,291	14,664,188	7,150,083	2,433,819	59,231,867
1997	9,233,228	27,569,930	16,009,494	7,460,448	2,599,900	62,873,000
1998	9,874,455	30,079,461	17,985,004	7,937,794	2,782,731	68,659,445
1999	10,783,084	33,061,850	19,333,350	8,368,392	3,031,778	74,578,454
2000	11,640,999	34,007,696	20,464,295	9,026,043	3,244,448	78,383,481
2001	12,527,394	40,292,210	22,009,796	9,709,823	3,454,344	87,993,567
2002	13,682,377	45,441,051	24,039,024	10,589,704	3,739,441	97,491,597
2003	15,061,690	49,737,503	26,462,386	11,678,583	4,134,294	107,074,456
2004	13,396,080	52,588,770	28,321,001	12,457,551	4,386,322	111,149,724

(1) Includes the Novi, Northville, South Lyon, and Walled Lake School Districts. Beginning with fiscal year ended June 30, 2001, also includes Oakland and Wayne County Intermediate Schools.

(2) Represents taxes levied for Oakland Community College and Schoolcraft College.

City of Novi, Michigan

Fiscal Year Ended June 30	City of Novi							Total
	General Fund	Municipal Street	Police and Fire	Parks and Recreation	Drain Revenue	Library	Debt Service	
1995	3.9229	.7064	1.4960	.3720	.7037	.7841	2.3692	10.3543
1996	3.8715	.6971	1.5097	.3671	.6945	.8160	2.2103	10.1662
1997	4.1215	.6971	1.5097	.4080	.6945	.8160	2.1566	10.4034
1998	4.1215	.6945	1.5084	.4077	.6945	.8153	2.6863	10.9282
1999	4.1215	.6945	1.5032	.4063	.6945	.8125	2.5251	10.7576
2000	4.1215	0.6815	1.478	0.3995	0.6005	0.7989	2.4678	10.5477
2001	4.1215	0.6815	1.4567	0.3937	0.6005	0.7874	2.5003	10.5416
2002	4.4485	0.6815	1.4443	0.3902	0.6005	0.7806	2.196	10.5416
2003	4.4551	0.7791	1.4416	0.3894	0.6005	0.7791	2.0968	10.5416
2004	4.4985	0.7776	1.4388	0.3886	0.6005	0.7776	2.0600	10.5416

**Property Tax Rates - Direct and Overlapping Government
(Per \$1,000 of Assessed Value)
Last Ten Fiscal Years**

Overlapping Government							
Novi Schools		South Lyon Schools		Walled Lake Schools		Northville Schools	
Homestead	Nonhomestead	Homestead	Nonhomestead	Homestead	Nonhomestead	Homestead	Nonhomestead
10.3360	22.8460	5.8800	23.8800	8.6566	22.8460	7.2960	25.2960
11.2900	23.8000	5.8800	23.8800	8.7816	22.6500	4.3000	22.3000
11.2900	23.9000	6.2500	24.2500	9.4772	23.6500	4.2000	22.2000
11.1783	23.7000	11.7283	24.2500	8.4399	23.1000	6.5050	24.5050
11.1213	23.8950	8.1500	26.0024	8.1074	22.8000	6.0000	24.0000
10.6785	23.6208	8.0000	25.8524	7.852	22.8000	5.5000	23.5000
10.3582	23.2663	8.0000	25.8524	8.0982	23.1000	5.0000	23.000
12.1574	25.6000	8.0000	26.0000	7.9538	23.1000	5.0500	23.0500
11.6782	25.3453	8.0000	26.0000	7.4728	22.9884	4.7800	22.7800
11.3460	25.3049	8.0000	26.0000	7.5248	23.1000	4.7500	22.7500

City of Novi, Michigan

Property Tax Rates - Direct and Overlapping Government (Per \$1,000 of Assessed Value) Last Ten Fiscal Years (Continued)

Fiscal Year Ended June 30	Oakland County	Oakland Community College	Schoolcraft Community College	Oakland Intermediate Schools	Wayne Intermediate Schools	State Education
1995	4.9480	0.8522	1.8751	2.1294	1.9971	6.0000
1996	4.9480	1.6522	1.8521	2.1294	1.9971	6.0000
1997	4.8480	1.6522	1.8521	2.1294	1.9971	6.0000
1998	4.8180	1.6522	1.8521	2.1294	1.9971	6.0000
1999	4.6564	1.6456	1.8521	2.1208	1.9971	6.0000
2000	4.6522	1.6295	1.8440	2.0998	1.9974	6.0000
2001	4.6478	1.6109	1.8311	2.0752	1.9789	6.0000
2002	4.6438	1.5952	1.8195	3.4526	1.9753	6.0000
2003	4.6523	1.6090	1.8043	3.4224	3.4643	6.0000
2004	4.6497	1.5983	1.8024	3.3991	3.4643	5.0000 (1)

(1) The State of Michigan passed legislation on April 30, 2002 to require the levying of the State Education Tax (SET) on subsequent summer tax bills only. A one-time reduction from 6 mills to 5 mills was offered during the 2003 tax year to assist taxpayers with the transition to the new collection cycle.

City of Novi, Michigan

Principal Taxpayers 2004 State Equalized Valuation

Company Name	Product/Service	Total Assessed Valuation	Percent of Total City Valuation
Singh	Apartment complex	\$ 54,986,950	1.72
Taubman (Twelve Oaks Mall Ltd. Part.)	Regional mall	53,394,800	1.67
Haggerty Corridor Partners	Property management	46,487,900	1.45
Fountain Walk	Retail shopping center	37,265,750	1.17
Occidental Development Ltd.	Property management	33,362,450	1.04
Toll MI Ltd. Part.	Property management	28,571,750	0.89
DTE Energy	Public utility	27,518,770	0.86
Providence Hospital	Medical center	23,172,050	0.73
Solomon Properties	Property management	22,205,150	0.69
Novi Campus LLC	Property management	20,892,510	0.65
MI Developments America	Office center	18,950,310	0.59
Novi Town Center Investors	Retail shopping center	17,170,680	0.54
Target Corporation	Retail shopping center	17,134,000	0.54
Ramco-Gershenson	Retail shopping center	16,658,100	0.52
JFK Investment	Property management	16,241,380	0.51
Northwestern Mutual	Office center	14,038,858	0.44
Central Park LLC	Apartment complex	13,843,300	0.43
Consumers Energy	Public utility	13,608,470	0.43
Haggerty Hotel Association	Hotel	12,023,100	0.38
Western United Life Assurance	Property management	11,313,200	0.35
Total		\$ 498,839,478	15.60

City of Novi, Michigan

Ratio of General Obligation Bonded Debt to Assessed Value and General Obligation Bonded Debt per Capita Last Ten Fiscal Years

Fiscal Year Ended June 30	Assessed Value	Estimated Population	General Obligation Debt Outstanding (1)	Ratio of General Obligation Debt to Assessed Value	General Obligation Debt per Capita
1995	\$ 1,363,812,800	40,500	\$ 34,895,000	2.56	\$ 861.60
1996	1,478,398,350	40,500	36,225,000	2.45	894.44
1997	1,584,646,400	40,500	45,495,000	2.87	1,123.33
1998	1,712,728,050	40,500	51,105,000	2.98	1,261.85
1999	1,922,625,050	40,500	52,140,000	2.71	1,287.41
2000	2,274,361,800	47,386	49,500,000	2.18	1,044.61
2001	2,440,876,450	47,386	56,335,000	2.31	1,188.85
2002	2,677,663,040	47,386	51,325,000	1.92	1,083.13
2003	2,971,901,040	47,386	55,595,000	1.87	1,173.24
2004	3,196,088,910	47,386	52,625,000	1.65	1,110.56

(1) Amount does not include special assessment bonds, revenue bonds, contractual obligations, building authority bonds, and general obligation bonds that are being repaid by Enterprise Funds.

City of Novi, Michigan

Building Permits at Estimated Market Value Last Ten Years

Year Ended June 30	Residential		Commercial		Industrial		Grand Total
	Number	Estimated Value	Number	Estimated Value	Number	Estimated Value	
1994	1,400	\$ 79,425,887	42	\$ 10,363,084	-	\$ -	\$ 89,788,971
1995	1,230	78,902,610	160	24,901,588	-	-	103,804,198
1996	1,423	83,165,492	197	39,910,222	3	1,970,600	125,046,314
1997	1,068	61,534,342	174	37,679,916	4	3,457,457	102,671,715
1998	365	50,148,700	147	57,587,500	-	-	107,736,200
1999	814	42,495,479	174	42,404,351	8	7,855,432	92,755,262
2000	988	91,702,934	70	46,020,904	7	5,733,164	143,457,002
2001	850	69,140,482	70	60,227,021	11	23,777,020	153,144,523
2002	846	127,159,738	81	59,036,797	8	6,577,337	192,773,872
2003	584	105,165,805	192	36,554,379	9	7,144,975	148,865,159

City of Novi, Michigan

Computation of Direct and Overlapping Debt June 30, 2004

Jurisdiction	General Bonded Debt Outstanding	Percent Applicable to Novi Taxpayers	Amount Applicable to Novi Taxpayers
City of Novi			
Direct debt:			
General Obligation Bonds (Limited and Unlimited Tax)	\$ 52,625,000		\$ 52,625,000
Building Authority Bonds	22,350,000		22,350,000
Special Assessment (General Obligation) Bonds	18,795,000		18,795,000
Michigan Transportation Fund Bonds	2,015,000		2,015,000
Revenue Bonds	13,680,000		13,680,000
Installment Purchase Contracts and Agreements	66,000		66,000
Share of County-issued Bonds:			
Sewer	2,425,000		2,425,000
Drain	750,000		750,000
Total direct debt	112,706,000		112,706,000
Less:			
Special Assessment Bonds	18,795,000		18,795,000
Michigan Transportation Fund Bonds	2,015,000		2,015,000
Revenue Bonds	13,680,000		13,680,000
Total net direct debt	78,216,000	100.00	78,216,000
Overlapping:			
Novi School District	136,933,000	99.91	136,809,760
Northville School District	82,290,000	19.64	16,161,756
Walled Lake School District	199,370,000	9.72	19,378,764
South Lyon School District	171,780,000	0.84	1,442,952
Oakland County	73,460,291	5.04	3,702,399
Oakland Intermediate School District	8,275,000	4.31	356,653
Oakland Community College	12,325,000	4.10	505,325
Total direct and overlapping debt	<u>\$ 762,649,291</u>		<u>\$ 256,573,609</u>

City of Novi, Michigan

Demand and Savings Deposits Last Ten Fiscal Years

Fiscal Year Ended June 30 (2)	Deposits in Thousands (1)		
	Banks	Savings and Loans	Grand Total
1994	\$ 398,724	\$ 58,148	\$ 456,872
1995	428,421	66,006	494,427
1996	471,959	70,383	542,342
1997	558,550	80,833	639,383
1998	637,577	75,240	712,817
1999	509,118	85,594	594,712
2000	481,233	89,136	570,369
2001	462,917	101,145	564,062
2002	511,467	-	511,467
2003	519,096	6,075	525,171

(1) Deposit information is from FDIC data contained in branch directory summaries of deposits.

(2) Information for 2004 was not available at time of printing.

City of Novi, Michigan

Demographic Statistics Last Ten Years

Year Ended December 31	Estimated Population	Number of Households	Median Household Income	Unemployment Rate
1994	33,000	15,735	*	3.3
1995	40,500	16,402	\$ 52,289	2.7
1996	40,500	*	*	2.4
1997	40,500	*	61,401	2.0
1998	40,500	*	*	1.9
1999	40,500	18,843	*	1.8
2000	47,386	19,426	47,518	1.6
2001	47,386	*	*	2.9
2002	47,386	20,573	*	3.5
2003	47,386	21,018	*	4.2

* Not available

Sources: Southeast Michigan Council of Governments
U.S. Bureau of Labor Statistics

City of Novi, Michigan

Miscellaneous Statistical Data June 30, 2004

Streets and Sidewalks		Parks and Recreation	
Miles of City streets:		Acres	844
Primary	39	Locations	10
Secondary	107	Youth classes/clinics	1,000
Estimated sidewalks in miles	39	Adult classes/clinics	400
Bridges	4	Youth leagues	4,900
Street lights	401	Adult leagues	2,010
		Summer day camp	416
Fire Protection		Lakeshore Park vehicle entry	3,410
Stations	4	Lakeshore Park attendance	10,230
Fire incidents	137	Lakeshore Park picnic shelter rental	117
Service incidents	1,343	Senior citizens served	90,680
Fire inspections conducted	2,849	Special event attendance	10,966
Medical emergencies	2,187	Civic Center rentals	3,765
Paid-on-call staff	55	Civic Center attendance	99,312
		Novi Theaters - Cast	817
Water and Sewer Services		Novi Theaters - Audience	10,380
Customers:		After School Recreation Program	-
Residential	10,684	Police Protection	
Commercial	1,014	Part A crimes (1)	2,530
Miles of water mains	180	Part B crimes (2)	1,766
Miles of sanitary sewers	227	Injury accidents	266
Fire hydrants	3,077	Property damage	2,221
Water (in thousand gallons):		Moving traffic violations	10,353
Purchased from Detroit	2,213,689	Parking violations	620
Sold to residents	2,032,995	Adult arrests	1,709
Rates:		Juvenile arrests	261
Minimum 7,000 gallons	\$ 28.00	OUIL arrests	451
Additional usage at \$2.55 per		False alarms	2,527
1,000 gallons			
Sewer (per thousand gallons of		Library	
water usage)	\$ 1.93	Items circulated	411,599
Election Data (11/04/03 General)		Book collections	113,384
Registered voters	30,572	Audio/Video/CD collections	11,075
Voters at polls	3,962	Periodical subscriptions	195
Absentee ballots	1,343	Requests of Information	86,403
Percent voting	17.35%	Youth Summer Reading	1,577
		Program participants	28,824

- (1) Murder, negligent homicide, criminal sexual conduct, robbery, assault, burglary, larceny, arson, motor vehicle theft, embezzlement, drug laws, gambling
- (2) Fraud, OUIL liquor laws, disorderly conduct, family trouble, etc.

September 30, 2004

Honorable Mayor and Members
of the City Council
City of Novi
45175 West Ten Mile Road
Novi, MI 48050

Dear Mayor and Council Members:

We have recently completed our audit of the financial statements of the City of Novi for the year ended June 30, 2004. As a result of our audit, and in addition to our financial report, we offer the following comments for the Council's review:

STATE SHARED REVENUE

The City has and will continue to feel the effects of the slowdown in the State's economy. State shared revenue accounts for approximately 18.5% of the City's total General Fund revenue. During the current year, revenue sharing payments continued to decline, decreasing by 9.3%. In the upcoming year, the City can expect a small decrease, approximately 1%, in its state shared revenue.

The amount of state shared revenue received by the City is closely tied to the State's budget. During the current year, the State faced a continuing budget shortfall. In order to balance the budget, the State made the decision to completely eliminate revenue sharing payments made to counties, while allowing the counties to shift the levy of their taxes from the winter to the summer tax bills. In connection with this decision, the State concluded to freeze the total amount of revenue sharing payments made to cities, townships, and villages. Because some townships are constitutionally guaranteed an increase in revenue sharing, their increase will be offset by a slight decrease in other municipalities' revenue sharing payments.

Although only a small decrease in state shared revenue is anticipated for the upcoming year, the revenue the City receives from this important source will continue to be unpredictable until the State can stabilize its revenue sources. We recommend that the City continue to evaluate the impact of the revenue sharing reductions on the 2004-2005 budget. Updated information can be obtained from the Department of Treasury's web site at <http://treas-secure.state.mi.us/apps/findrevshareinfo.asp> or by calling the Office of Revenue and Tax Analysis at (517) 373-2697. We will continue to update the City as developments occur.

RETIREE HEALTH CARE

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the *government wide financial statements*, rather than the individual fund level. As a result, you will not need to change your budgeting practices.

The new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any under funding must be reported as a liability on the government wide statement of net assets.

This valuation will need to be performed by an actuary if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. For plans with 100 to 200 participants, the actuarial valuation must be at least every three years; for those over 200 participants, at least every other year. The new pronouncement is effective for the City in the year ended June 30, 2007.

INTERNAL CONTROL PROCEDURES

As a result of the new Statement on Auditing Standards No. 99, additional testing was performed at the City's finance department, Ice Arena and Senior Housing Center. The focus of this testing was on the City's cash receipt, cash disbursement, and payroll systems. Overall, we found that the City has placed appropriate emphasis on developing internal controls. Through this testing, several minor opportunities to improve the City's internal controls were noted. These opportunities have been documented and communicated to the City administration.

SOFTWARE SELECTION AND PROCESS REDESIGN

As the City continues to strive to provide new, better, and more timely financial information to management and Council, the City may determine that the current financial accounting package, which has been in use for many years, should be replaced. Should the City decide to purchase a new system, there will obviously be several aspects of the potential system that should be taken into consideration including cost/benefit, existing and future potential capabilities, security, compatibility with existing hardware and systems, and support. Another very important aspect to an effective system implementation is the redesign of business processes. Other local communities have successfully redesigned their business processes to match their new software system, thereby maximizing the capabilities of the software. Our firm has a team of consultants who specialize in software application selection and process redesign for municipalities. They would be happy to discuss these opportunities with you.

We would like to thank the City for the continued opportunity to serve as your auditors and for the assistance and cooperation that we received from Kathy Smith-Roy, Marina Neumaier, Jeff Hall, the accounting staff, and the rest of the City personnel during the audit. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



Joseph C. Heffernan